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AMERICAN ASSISTANCE AND THE INDIAN ECONOMY 1951-1969/70

by

NEELAMBAR HATTI

Lund 1977

AMERICAN ASSISTANCE AND THE INDIAN ECONOMY 1951-69/70

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PREFACE

India has been the recipient of a larger volume of external assistance over a longer period of time than any other developing country. This assistance has been provided in the context of an aggregate, planned economic development programme. There have been several studies dealing with external assistance and Indian economic development. However, there have been few studies analysing the impact of assistance from a single donor nation on Indian economy. For example, among the donor nations the United States has been by far the largest single donor and it would be of considerable interest to study the impact of American assistance on the Indian economy. While there have been numerous articles on various aspects of this topic scattered in several newspapers and periodicals, there is only one single book specifically dealing with this topic. This study, American Aid and India's Economic Development by S. Chandrashekar, which is "addressed to intelligent layman" is a very uncritical description of U.S. assistance to India and is of the opinion that the impact was one of "considerable and unqualified benefit to India" during the period of study, 1950-1964. Apart from this study there has been no attempt to provide a critical macro-economic appraisal and a close examination of the American contribution to different sectors of the Indian economy. It is hoped that the present study will help to fill, in some small measure, this lapse.

Those who have been helpful in the preparation of this study are too numerous to thank individually here. I owe my debt of gratitude to Professor Lennart Jörberg for his abiding interest and close guidance at various stages of the preparation of this study. I am thankful to my friends Karl Reinhold Haellquist of the Scandinavian Institute of Asian Studies, Copenhagen and Professor T.K. Lakshman of the Department of

PREFACE

India has been the recipient of a larger volume of external assistance over a longer period of time than any other developing country. This assistance has been provided in the context of an aggregate, planned economic development programme. There have been several studies dealing with external assistance and Indian economic development. However, there have been few studies analysing the impact of assistance from a single donor nation on Indian economy. For example, among the donor nations the United States has been by far the largest single donor and it would be of considerable interest to study the impact of American assistance on the Indian economy. While there have been numerous articles on various aspects of this topic scattered in several newspapers and periodicals, there is only one single book specifically dealing with this topic. This study, American Aid and India's Economic Development by S. Chandrashekar, which is "addressed to intelligent layman" is a very uncritical description of U.S. assistance to India and is of the opinion that the impact was one of "considerable and unqualified benefit to India" during the period of study, 1950-1964. Apart from this study there has been no attempt to provide a critical macro-economic appraisal and a close examination of the American contribution to different sectors of the Indian economy. It is hoped that the present study will help to fill, in some small measure, this lapse.

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Economics, University of Bangalore, India as well as my other friends in India at the universities of Delhi and Mysore for their help during my visits there in the course of the preparation of this study. I thank my colleagues at the Dept. of Economic History for their useful suggestions and comments. My special thanks to Docent Björn Lårusson for undertaking to read and comment the draft at a short notice.

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Chapter I

Introduction

The growing disparity between rich and poor countries has become a major issue in the modern world.[1] The disparity is not only substantial but it is one of affluence at one end and abject poverty at the other end. The desire and attempts to reduce this disparity has made economic development a universal goal. Particularly during the last two decades or so, an increasing number of newly independent nations have been making serious efforts to improve the state of their economies. The problem of economic development in many of these developing nations is, however, rather complicated. While they aspire to achieve rapid economic development, they lack adequate resources - capital and technological - to initiate and maintain self-sustaining growth. And many of the developing countries have felt the need for external assistance and international economic cooperation to supplement domestic resources and domestic developmental efforts.

Since the early fifties there has been a tranfer of resources on an unprecedented scale from the developed to the developing countries in order to help the developing countries in their efforts to improve the lot of their economies. The attempts to reduce the disparities between the rich and poor countries has been based on the assumption that a nation can achieve economic development by a determined national effort supplemented by external assistance and international cooperation.

During the sixties, however, the climate surrounding external assistance became heavy with distrust and sceptism in the donor as well as recipient countries. The donor countries were irked because their 'sacrifices' were not received by expressions and actions of gratitude by the recipient countries; the

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1. For an excellent discussion of the various aspects of the disparity or the 'gap' see Gustav Ranis (ed), "The Gap between Rich and Poor Nations, London 1972.

donors also appeared to have exaggerated expectations of earlier results. The recipient countries found the process of receiving assistance irritating and exasperating because bilateral assistance was often dispensed by the rich countries to gain political or strategic advantages rather than directing it to the promotion of economic development af the recipients. There was also much disillusionment among the recipients who often failed to understand the nature of obstacles which stood in the way of quick results or the decisions which had to be taken to achieve any results at all.[1)]

In the course of what has been called the "crisis of aid", there emerged two opposing views of foreign assistance as an aspect of relations between nations.[2)] The sceptics and cynics considered foreign assistance as an instrument used by the rich countries, either directly or through international institutions, for their own advantage. The commitments to development voiced by those countries and international institutions which provided assistance was considered fraudulent. Foreign assistance was being used by the donors as an instrument to dominate and control the recipient countries of the developing world. Foreign assistance, thus, was looked upon as an instrument of international exploitation.

The opposite view, rather naive and credulous, argued that it was possible to "discern a dim outline of a new world order in the activities of aid-giving". The rich countries would accept som sort of obligation for the welfare of the less fortunate in the developing countries. It was argued that the developed countries would provide assistance to help the developing countries until such time as these countries had reached a stage of self-sustaining growth or, where necessary, until the disparities between the poor and rich countries had been eliminated. This view was based on the conception of individual and collective responsibility.

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1. Lester B. Pearson et al., Partners in Development: Report of the Commission on International Development, New York, 1969, p. 5

2. The following two paragraphs are based on John White, The Politics of Foreign Aid, London 1974.

We shall not, however, go into a discussion of these views here. Neither the ideology of the first view nor the morality of the second view would be a good point of departure for understanding the various activities undertaken under the mantle of foreign assistance. It should be borne in mind that external assistance falls into the "twiligt zone of politics and economics" with an element of humanitarianism thrown in. Suffice it to say that external assistance can play a useful role in the process of development provided the goals to be attained and the process of attaining these goals are clearly understood. It would depend upon the national policies and the efficiency with which the domestic resources are utilised. Foreign assistance should be regarded only as a means to an end and not as an end in itself.

Which are the factors responsible for the economic development of a country? We must bear in mind that the factors responsible for economic development are many and multidimensional. It is beyond the scope of a limited study such as the present one to deal with the various facets of these factors. Suffice it to say that it would depend upon the availability of recources, the character and abilities of people reflected in high degree of achievement motivation, population growth and technological change. In most developing countries, however, domestic capital resources are inadequate to intiate and sustain development. Consequent- any reasonable growth in productive capacity would be facilitated if domestic savings are supplemented, for instance, by external assistance.

Moreover, domestic resources are not always perfect substitutes for imported resources. A given rate of economic growth will imply a certain volume of import requirement. But the export earnings of the developing country may not be adequate to meet the import requirements. If the foreign exchange requirements of a country exceed the aggregate export earnings, the planned rate of growth would be facilitated by the availability of external capital assistance.

Foreign assistance can also be a source of technical know-how. In the early stages of development a developing country would have to depend on technology from abroad but its place in development should be properly recognised. The role of technical know-how from abroad should be seen as that of an initiator of and complement to indigenous science and technology.[1)]

We must remember that the process of economic development should be viewed as an integral part of the process of building a nation. It is important to understand that the time horizon for these processes would be quite long. If this time perspective is borne in mind, it has significant implications as regards the nature, magnitude and forms of external assistance viewed as an instrument in the process of economic development.

Thus the role of foreign assistance would be to contribute towards initiating and stimulating the process of development and that of a substitute for indigenous efforts. Its role would be to provide the "missing links" in the process of development so that further progress would become self-sustaining.

Economic Growth and Economic Development

Although some fine distinctions can be drawn between economic development and economic growth,[2)] both are frequently

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1. The late Homi J. Bhabha, the famous Indian nuclear physicist. highlighted the relative roles of indigenous science and technology and technology from abroad through an analogy. He said that indigenous science and technology plays the part of an engine in an aircraft while foreign technology would play the part of a booster. But for the plane to be capable of independent flight it has to be powered by engines of its own. Bhabha related this analogy to show that if Indian industry was to take-off and be capable of independent flight, it must be powered by science and technology based in India.
   Cited in Foreign Aid: A Symposium, A Survey and An Appraisal, Indian Council of Current Affairs, Calcutta 1968, p. 233.

2. Jacoby, for instance, views economic growth as a quantitative concept and economic development as a qualitative one. See, Erich Jacoby, Man and Land, London 1971.

used as synonyms. Economic development is a process whereby an economy's real national income increases over a long period of time.[1] Higgins has stated that the term economic development is largely used to mean a discernible rise in total and per capita income of a country, widely diffused throughout occupational and income groups, and continuing long enough to become cumulative.[2] In this sense the concept of "selfare function" of economic growth and economic development lays stress on qualitative and quantitative increase in material welfare of the massess of people. The primary objective is to achieve higher standards of living in the sense of command over goods, services and leisure. With this end in view, a long-term process of economic development involves "an increase in human skills, a rise in the level of investment and saving, the adoption of new and improved techniques of production, a substantial change in the composition of output and employment, the development of new institutions and population growth".[3] The dynamics of economic and social change thus implied in growth and development create technical possibilities of production, as indicated by marginal productivities of various factors of production in use, maximize the rate of expansion of production and eventually raise per capita income to maximize the aggregate satisfaction of the community through the consumption of goods, services and leisure. Arthur Lewis has, therefore, associated long-term economic growth and development with rapid accumalation and application of knowledge in production and increasing amount of capital and other

---

1. Gerald Meier and Robert Baldwin, Economic Development: Theory, History and Policy, New York 1957, p. 3.

2. Benjamin Higgins, Economic Development: Problems, Principles and Policies, 2nd Edition, London 1963.
It may be of interest to note here that acording to Jacob Viner, "reduction of mass poverty alone is a crucial test of the realisation of economic development". See Jacob Viner, International Trade and Economic Development, London 1953, Chapter VI.

3. Hollis B. Chenery and Alan M. Strout, "Foreign Assistance and Economic Development", The American Economic Review, Vol. LVI, September 1966, p. 68o.

resources per capita.[1] In fact, unless people become technology-minded, acquire higher levels of skill and learning, put potential resources to optimum use, accept institutional and social changes the rise in per capita income would be very limited. The objective of welfare function, i.e., widening the range of effective choice, would consequently become a remote possibility. The level of saving in such an economy would not rise to a degree when the developing country would be in a position to finance its further economic progress from domestic resources alone. In the short-run, however, the economy may be growing in terms of real per capita income but not developing because the growth in per capita income may have resulted from favourable terms of foreign trade or good weather conditions.[2] Similarly, an economy may be developing in terms of more investment without growing in terms of real per capita income because of long gestation periods and low income yields of these investments.[3]

Foreign assistance received by India can have affected the economy in terms of both short-term growth and long-term development and, therefore, economic growth and economic development have been used as synonyms.

The Study

The present study is an attempt at examining the contribution of American assistance to Indian economic development, both in qualitative and quantitative terms. The study covers the period 1951-1969/70, i.e., the first three five year plans ending in 1966 and the subsequent, improvised annual plans.

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1. W. Arthur Lewis, The Theory of Economic Growth, London 1955, p. 11.
2. Hollis B. Chenery, "Patterns of Industrial Growth", The American Economic Review, Vol. L, September 1960, p. 624.
3. Stanley Katz, External Assistance and Indian Economic Growth, Bombay 1968.

Although it is difficult to quantify the impact of external assistance and make an macro-economic appraisal, an attempt is made to assess its contribution to national income, saving and investment. An attempt has also been made to examine the impact of foodgrains import under the controversial P.L. 480 programme on the Indian economy.

It must be pointed out that the study is by and large confined to economic aspects. The political and social implications of external assistance are only very marginally considered. The problem of debt service as well as the question of the effects of American assistance on the pattern of income distribution are beyond the scope of this study.

Chapter II

Objectives of American Foreign Assistance[$]

The United States involvement in large-scale foreign assistance began with the introduction of the Marshall Plan. As the cold war developed, it was realised that economic stability was essential to political stability and peace. The United States had hoped that the responsibility for the reconstruction and recovery of the European economies could be transferred to the United Nations and private enterprise. But the US hopes were not realised and America had to devise a series of arrangements "partly to deal with the unexpectedly devastating consequences of the War, and partly to deal with the situation created by the deteriorating relations between the Soviet Union and the Western powers[1)]

In 1947 the Committee for European Economic Cooperation proposed a Recovery Programme to prevent the collapse of the European economy. In 1948, the United States embarked upon a complete European Redovery Programme. The Economic Cooperation Act of 1948 aimed at promoting world peace and general welfare as well as safeguarding national interest and augumenting suitable foreign policy. The action was intended to be "substantial and sustained enough to be a cure rather than a palliative"[2)]

The Marshall Plan had generally achieved its purpose and by the end of the plan many of its recipients were well on the path of prosperity[3)] However, for the United States,

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$ The following discussion is concerned with the US objectives during 195o-7o. For a general discussion on donors' and recipients' objectives see John White, The Politics of Foreign Aid, London 1974, pp. 34-77.

1. W.A. Brown and R. Opie, American Foreign Assistance, Washington D.C. 1953, p. 545.

2. Herbert Feis, Foreign Aid and Foreign Policy, New York 1964, p. 51.

3. John D. Montgomery, Foreign Aid in International Politics, New Jersy 1967, p. 39

   See also Gunnar Myrdal, Asian Drama, Vol. I, New York 1968, pp. 625-27.

rehabilitation of European nations was not sufficient to ensure the world peace and welfare. Other nations threatened by Communism had also to be helped. Political instability and poverty in developing nations posed a threat to the stability and well-being of the developed nations because "poverty and unrest create fertile ground for communist propaganda"[1].

It was against this background that the Point-Four Programme was announced by Truman in 1949. The policy of the United States was "to aid efforts of the peoples of economically underdeveloped areas to develop their resources and improve their living conditions"[2]. Truman described the programme as a task of "making the benefits of scientific advances and industrial progress available for the improvement and growth of underdeveloped areas"[3]. Technical assistance was emphasized because it was assumed that lack of technology was the main problem experienced by the developing countries. Technical assistance was to provide a basis for attracting private foreign capital[4]. It was also explicitly stated that the material resources at the disposal of the United States for the assistance of other people were limited but the resources in technical knowledge were inexhaustible. Further, technical assistance was viewed as a multiplier activity; a technician was expected to train and teach many more.

Gradually the importance of world economic recovery was superceded by the importance of US national security as an integral part of the free world. The Mutual Security Act of 1951 emphasized the significance of defence. With the passage of the Mutual Security Act of 1952, military aid constituted a major part of foreign assistance. The most important factor in determining the size of assistance and its distribution was the contribution it would make to fight against the spread

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1. Brown and Opie (1953), op.cit., p. 384
2. Charles Wolf, jr., Foreign Aid: Theory and Practice in Southern Asia, Princeton 1960, p. 178.
3. Ibid.
4. P.J. Elridge, The Politics of Foreign Aid in India, London 1969, pp. 27-28

of communism'. Thus the primary purpose of the US foreign assistance was to strengthen her own security.

For several years efter the passage of the Mutual Security Act, the problems of development assistance did not receive systematic attention despite the growth activities in that field. The introduction of 'Food for Peace' programme in 1954 signalled the beginning of the sales of agricultural surpluses under The Agricultural Trade Development and Assistance Act, more generally known as Public Law 48o[1]. There were a number of ad hoc programmes but it was not until 1956/57, after a series of foreign policy set-backs and the emergence of the Soviet Union in the field of foreign assistance, that the United States assistance programme was subjected to intensive study[2]. The main reason for the study was the growing opposition to foreign assistance programmes and the aim was to clarify the relationship between foreign assistance and national interest. One of the main suggestions made was that development assistance should be neutral: "The United States agency allocating funds should not have to consider anything beyond the technical criteria which have been established. It should never seek, for example, to influence negotiations on an air base by granting or denying funds for construction of a hydroelectric station out of economic development appropriations"[3].

It was, however, also argued that development assistance should be a part of foreign policy and should not be entirely seperated from current diplomacy. Development assistance should be "selective and generally serve to produce satis-

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1. The reason for 'Food for Peace' programme appears to have been something else than peace. According to Datta, the American need for disposal of surplus arose from the fact that while agricultural production remained at a high level, the export market in industrially developed countries declined sharply in the early 195os.

   See Amlan Datta, Perspective of Economic Development, London 1973, p. 193

2. Göran Ohlin, Foreign Aid Policies Reconsidered, Paris 1966, p. 17.

3. Special Committee to Study the Foreign Aid Program, Foreign Aid Programm Compilation of Studies and Surveys, Washington D.C. 1957, quoted in Göran Ohlin (1966), p. 17

factory settlements"[1]. Economic advancement of the developing areas was to be regarded as an abiding objective of US foreign policy,

Following the discussions during 1956 and 1957, foreign assistance in the form of loans on easy terms was enlarged. The shift towards development assistance was accelerated with the creation of Development Loan Fund in 1958. There is, however, little doubt that the sizable expansion of US foreign assistance in the late fifties was a political response to the increasing Soviet activities in Asia and Africa[2]. With the establishment of the Agency for International Development, non-military assistance was reorganised and systematic attention was paid to the problems of foreign assistance. Subsequently, however, the United States interest in development assistance during the late fifties and early sixties was dampened with the publication of the Clay Committee Report in 1963. The Committee examined the US military and economic assistance programmes to determine whether their scope and distribution was effectively contributing to the security of the United States and the economic and political stability of the free world[3].

It is probably the Foreign Assistance Act of 1961 which provides the most clear insight into the foreign assistance philosophy of the United States. According to the Act, the aim is "to promote the foreign policy, security and general welfare of the United States by assisting peoples of the world in their efforts towards economic development and internal and external security, and for other purposes"[4]. The Statement Policy (Section 102) states that the survivel of free institutions in the United States can be "best assured in a world-wide atmosphere of freedom". It is to this

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1. See Edward Mason, Foreign Aid and Foreign Policy, New York 1964.
2. See J. Kaplan, The Challenge of Foreign Aid, New York 1967.
3. Cited in Ohlin (1966), op. cit., p.21.
4. Quoted in Llyod Black, The Strategy of Foreign Aid, Princeton 1968, p. 14.

end that the United States extended and continues to extend assistance to the peoples of the developing countries so that they can establish responsible governments and lead a better life. Moreover, "it is the policy of the United States to strengthen friendly foreign countries by encouraging the development of their free economic institutions and productive capacities, and by minimizing or eliminating barriers to the flow of private investment capital"[1]. According to the Statement, "the peace of the world and the security of the United States are endangered as long as international Communism continues to attempt to bring under Communist domination peoples now free and independent/.../It is, therefore, the policy of the United States to make available to other countries and peoples, upon request, assistance of such nature and in such amounts as the United States deems advisable/.../ to help them maintain their freedom/.../"[2].

Thus it is clear from the foregoing pages that the objectives of the United States as a donor nation can be divided into three categories: Strategic and Political, Economic, and lastly, Humanitarian.

Strategic and Political objectives

The Objective of Foreign Assistance Act of 1948 was "to promote world peace and the general welfare, national interest and foreign policy of the United States through economic, financial and other measures necessary to the maintenance of conditions abroad in which free institutions may survive, and consistent with the maintenance of the strength and stability of the United States"[3]. Once the European Recovery Programme was under way more attention was paid to the problems of the developing countries. But the political and strategic aspects were never absent from the US foreign assistance programmes[4]. President Eisenhower clearly sta-

1. Lloyd Black (1968), op. cit., p. 14.
2. Ibid., p. 15
3. Brown and Opie, op.cit., p. 124
4. Gunnar Myrdal (1968), op.cit., p. 636.
   See also Myrdal, The Challenge of World Poverty, NY 197o, p. 351 ff.

ted the political and strategic objectives of American assistance as follows: "This part of the (Mutual Security) program helps less developed countries to make the social and political progress needed to preserve their independence. Unless these peoples can hope for reasonable economic advance, the danger will be so acute that their governments will be subverted by communism/.../ Lacking outside help these nations cannot advance economically as they must to maintain their independence/.../The danger would be grave/.../ Instability and threats to peace would result/.../ The help toward economic development that we provide these countries is a means to forestall such crisis. Our assistance is thus insurance against rising tensions and increased dangers of war"[1].

It is thus evident that extending assistance is closely related to the foreign policy aspects of the United States. In extending assistance the primary criterion is national interest. Foreign assistance is merely an instrument of foreign policy, like diplomacy[2]. Economic and social development along with economic stability is important because they promote actively either the maintenance in power of governments whose policies are in accord with the political objectives of the United States (or at least not in opposition to them), or will help to avoid violence and political extremism which may be contrary to the political and security objectives of the US[3]. As Prof. Chenery has put it, "the main objective of foreign assistance, as many other tools of foreign policy, is to produce the kind of political and economic environment in the world in which the United States can best pursue its own social goals"[4].

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1. Message to the Congress on the Mutual Security Program for Fiscal Year 1958, Quoted in S. Chandrasekar, American Aid and India's Economic Development, New York 1965, p. 42.
2. K.B. Griffin and J.L. Enos, "Foreign Assistance: Objectives and Consequences", Economic Development and Cultural Change, Vol. 18, April 1970, p. 316.
3. R.F. Mikesell, The Economics of Foreign Aid, London 1968, p. 8.
4. Hollis B. Chenery, "Objectives and Criteria of Foreign Assistance" in G. Ranis (ed.), The United States and the Developing Economies, New York 1964, p. 81.

Arguments in favour of assistance to developing countries as a contribution to world peace and security have been

contd. on next page

The strategic objective has rarely been absent in consideration of American assistance programmes, because the US fears communist menace. The strategic objective can be discerned in the geographical distribution of American assistance. The United States has provided huge amounts to South Korea and Formosa so that the two countries can maintain military establishment capable of dealing with actual or threatened communist aggression.[1] While the basic attitude has remained the same, the emphasis and interrelation of objectives have changed somewhat during the 197os because foreign assistance cannot merely remain a function of cold war. During the sixties, however, the US interest in the developing countries, as expressed in foreign assistance, was primarily on strategic-political considerations.[2] Dean Rusk, Secretary of States under Presidents Kennedy and Johnson, clearly voiced the motives of the US assistance programmes: "The foreign aid program of the 196os - as it was in the 194os and 195os -

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contd.

contested by many a scholar. They do not agree that foreign assistance is likely to promote development, that development will produce free and democratic or stable governments, and that assistance with or without development will enhance the security of the United States.

See Milton Friedman, "Foreign Economic Aid: Means and Objectives", in Yale Review, Vol. 47, December 1958. Hans Morgenthau, "A political Theory of Foreign Aid", in American Political Science Review, Vol. 6o, June 1962 and Edward Banfield, American Foreign Aid Doctrines, Washington, D.C., 1963.

Griffin has argued that assistance is given to gain favour and influence policies in the recipient country. "Favours granted are favors asked, for favor to lender is often a disfavor to the lender's opponent. Thus foreign assistance can be dangerous because it spreads and perpetuates the animosities that motivate the great powers; it sows the seeds of discard, and both the strong and the weak may harvest the crop." See Griffin and Enos, op. cit., p. 317 See also P.T. Bauer, Dissent on Development: Studies and Debates in Development Economics, London 1971, pp. 98-1o2. P.T. Bauer and B.S. Yamey, "The Pearson Report: A Review" in T.J. Byres (ed), Foreign Resources and Economic Development, London 1972, pp. 56-59 & Gunnar Myrdal (1968), op. cit., pp. 636-37.

1. Gunnar Myrdal, The Challenge of World Poverty, New York 197o, pp. 342-46.

2. John Pincus, Trade, Aid and Development, New York 1967, p. 12.

is planned and administered to serve the vital interest of the United States. It is a prime instrument of US foreign policy and our security would be in great jeopardy without the aid programme/.../ US assistance fits into a carefully planned pattern on a study of each country and an analysis of US interests".[1)]

One of the means to protect and advance immediate American foreign policy interests was "supporting assistance" which could not be justified on economic grounds alone. "It is provided primarily to enable larger defence efforts to be undertaken in less developed nations threatened by communist expansion and to avert situations of dangerous instability in sensitive areas. In a few instances it is also provided to encourage independence of action in nations susceptible to Russian or Chinese communist domination".[2)]

In short, strategic and political considerations have always been very relevant to foreign assistance programmes of the United States. The objectives have been to secure political impact on international issues, to secure certain military and strategic advantages and lastly, to promote political ideology.[3)]

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1. Quoted in K.B. Griffin, "Pearson and the Political Economy of Aid", in T.J. Byres (ed), op. cit., p. 119.

2. AID's Financial Year Summary Presentation 1966 to the Congress, quoted in Lloyd Black, The Strategy of Foreign Aid (1968) p. 18.
The political character of US foreign assistance became more and more pronounced towards the end of the 1960s and, according to Myrdal, the main reason was the US Vietnam Policy. See Gunnar Myrdal (1970) op. cit.p. 351.

3. According to Krause, "With the major overall objective-one that is expressed in political and military terms, the primary justification comes to be cast in terms of its merit as an implementary device in the course of striving towards attainment of political-military objective/. ../ the official justification for this economic aid ... is not that of promotion of economic development for the sake of economic development, but rather it is that of economic development for the sake of facilitating attainment of another and paramount objective expressible in political and military terms".

   W. Krause, Economic Development-Underdevelopment World and the American Interest (1962), quoted in Ajit Roy, Economics and Politics of US Foreign Aid, Calcutta 1966, p. 16.

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Economic objectives

It has been argued that in order to maintain their high standard of living the developed countries must continue to expand. But their growth is positively correlated to the volume of international trade. In order to ensure greater volume of trade, the rich nations must help poor nations to develop.[1]. This arguement does not carry much weight because the extra possible gain from the increase in the number of advanced countries could only be slight. The international market can further expand if barriers to trade are removed. Another argument is that the capitalist countties cannot absorb their own output and, therefore, they must export capital abroad and create new markets to maintain full employment at home.

One possible advatage to the donor country is that by extending loans and credits she gets beneficial orders. It can be noted that foreign assistance could be of considerable advantage to various industries in the donor nation. An AID report emphasized the aspect of immediate export sales benefits to various American industries[2].

The US surplus commodity shipments under P.L. 48o is an example for expanding American exports as a consequence of foreign assistance programmes. For many years before the commodity assistance began American agriculture exported roughly lo per cent of its production. But as a result of

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For an interesting study of aid allocation from the standpoint of maximizing US political objectives see Charles Wolf, op. cit. For a general discussion on the political aspects of foreign aid see "Foreign Aid: Political Aspects" by George Liska in International Encyclopedia of Social Sciences, Fol. 5, pp. 513-52o

1. A.A. Fatouros and R.N. Kelson, Canada's Overseas Aid, London 1964, p. 64. For a general discussion of the economic aspects of foreign aid see "Foreign Aid: Economic Aspects" by Gerald Meier in International Encyclopedia of Social Sciences, Vol. 5

2. R.F. Mikesell (1968), op. cit., p. 11.

the surplus commodity export programmes, American agricultural exports have greatly increased.[1] The provisions of P.L. 48o are also designed for the purpose of stimulating the flow of American private investment to the developing countries.[2]

In the modern world the desires and hopes for social and economic development have been so much aroused that the survival and functioning of governments has come to rest on the development of the poor countries. This is the 'basic self-interest' of donor nations in the development of poor nations.[3] It has been realised that strengthening of the economies of non-aligned nations is as important as that of allies and friends. Further, if the developing countries are not assisted in their desire for development, they are bound to look for other sources without paying attention to the ideology of the donor.

America's economic stake in the economic development of the developing nations was clearly stated by Eisenhower:

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1. Llyod Black (1968), op.cit., p. 17.

   The American need for disposal of surplus under P.L. 48o arose from the fact that while agricultural production, in particular wheat production, remained at a high level, the export market in the industrially developed countries declined sharply in the early fifties. See Amlan Datta, Perspectives of Economic Development, London 1973, p. 193.

2. R.F. Mikesell, Public International Lending for Development, New York 1966, p. 3o

   An important objective in this context for American investors in developing countries was to open up new sources af raw materials mainly for export. See Hamza Alavi and Amir Khusro, "Pakistan: The Burden of US Aid" in R.I. Rhodes (ed) Imperialism & Underdevelopment, NY, London 197o.

3. I.M.D. Little and J.M. Clifford, International Aid, Chicago 1965, p. 87

"We have an economic interest in promoting the development of the free world. In the years to come, the increased economic strength of less-developed countries should prove mutually beneficial in providing growing markets for exports, added opportunities for investment and more basic materials we need from abroad"[1].

It has been mentioned earlier that a stated objective of American foreign assistance has been to pave way in the developing countries for the flow of American private investment capital. The United States "should concentrate its economic aid programmes in countries that show greatest inclination to improve investment climate, and withhold from others until satisfactory performance has been demonstrated"[2].

We have also seen earlier that during the sixties external assistance was viewed as a stimulant to American economy and as a means to develop new markets for American industry. It can be noted here that a large part of the US assistance is extended in the form of goods and services produced in the United States. The 1966 AID report indicated the beneficial effects of such assistance[3].

Thus, the US external assistance is calculated to benefit the American economy and also to pave way for American private investment in the developing countries. The policy of tied aid and expansion of AID investment guarantee programme were undoubtedly motivated by this objective.[4].

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1. Quoted in S. Chandrashekar, op. cit., p. 5o
2. Department of Commerce, Committee for the Alliance of Progress, quoted in Griffin, "Pearson and the Political Economy of Aid" in T.J. Byres (ed), op. cit., p. 12o
3. R.F. Mikesell (1968), op. cit., p. 11
4. Agency for International Development, Principles of Foreign Assistance, Washington, D.C., 1963, p. 1.

Humanitarian Objectives

Eisenhower stated that "we have had as our goal the promotion of peaceful change for millions of people in Latin America, Asia and the Middle East who are seeking domestic tranquility and a better way of life. We have responded to the hope of these millions for a decent future for themselves and their children through well-conceived programs of economic and technical assistance/.../"[1]. Replying to the critics of aid programme, President Kennedy reminded the people of his country of the words of Apostle Paul: "Let us not be weary in well-doing for in due season we shall reap what we plant now"[2]. President Johnson piously declared that aid was one of the most christian acts[3]. He said that although US foreign aid is propounded to serve the interests of American security and welfare, much of the assistance came from moral reasons. However, such statements should not prompt us to conclude that humanitarian desire has been an effective objective behind the US foreign assistance programmes. In spite of the statements cited above and many more that can be cited, "the flow of massive economic aid, in the ultimate analysis, is neither philanthrophic nor humanistic, but based on very practical economic or strategic considerations"[4]. Charles Wolf writes that "... humanitarian objectives are not, nor do they appear likely to be, prominent among the continuing objectives of US foreign aid"[5]. While there is no

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1. Quoted in R.F. Mikesell (1968), op. cit., p. 6.
2. Quoted in H.J.P. Arnold, Aid for Developing Countries, London 1962, p.44.
3. See Rubin J. Seymour, The Conscience of the Rich Naions, New York 1966, p. 25.
4. Nabagopal Das, "Foreign Aid as a Factor of Economic Growth", in Foreign Aid- A Symposium, Indian Council on Current Affairs, (1968), p. 75.
5. Charles Wolf, jr., op. cit., p. 3o

   If pure humanitarian or even welfare maximisation considerations as in the case of internal redistribution had played a significant role in external assistance, poorer countries like India would automatically become entitled to massive aid. See D.T. Lakdawala, "Development and Foreign Aid", in The Indian Economic Journal, Vol. XV, No. 3, 1968, p. 328. See Also, Griffin And Enos, "Foreign Assistance: Objectives and Consequences", op. cit., p. 312.

doubt that an element of humanitarian motive is present in the US foreign assistance objectives, it does not, however, appear to have played an important role. The humanitarian aspect seems to come to the fore only when meeting emergencies resulting from natural disasters.

Thus the United States foreign assistance objectives reveal a variety of motives. The objectives shifted stand on the border between 'conception of altruism and enlightened self-interest'. Broadly speaking, foreign assistance falls into the twilight zone of politics and economics. The US foreign assistance "represents an amalgam of impulses to establish national presence, together with miscellaneous international bargains of exchanges of favours and various strategic purposes/.../ It is possible for a single rationale - whether diplomatic, military, political or economic - to smother the rest/.../ There are many reasons for offering aid, and a variety of ways of doing it. If the economic instruments of development are no longer needed, other instruments more suitable to US strategic purposes can still be usefeul"[1].

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1. John D. Montgomery (1967), op. cit., pp. 24-25

Chapter III

Evolution of Indo-US Aid Relations

The United States, which was the single largest source of external assistance during the period under study, was not at all in the picture when India embarked upon the process of planned economic development soon after independence. At that stage external assistance was coming through the Colombo Plan[1]. Subsequently, however, several factors were at work which encouraged American assistance to India. In those days the primary objective of American foreign assistance was anti-communist crusade[2]. Military aid was directed towards containing the evil of communism. Economic aid was less important and little concern was shown for the long-term development of the recipient country.

The successful revolution on Mainland China was one of the factors that played an important role in changing the US public opinion as well as the American foreign assistance policies.[3] There was the desire to preclude the possibility of India becoming another China. Moreover, it became increasingly clear that the United Kingdom was hardly in a position to provide economic assistance to India, beyond releasing India's sterling balances accumalated during the Second World War. The Conference of Commenwealth Finance Ministers in 1951 stressed that each country should explore "the possibility of securing dollar loans for meeting its developmental and other requirements so as to relieve the strain on the current dollar earnings".[4]

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1. See Charles Wolf, jr., Foreign Aid: Theory and Practice in Southern Asia, Princeton 196o, p. 84.
2. Gunnar Myrdal, The Challenge of World Poverty, New York 197o, p. 339-4o.
3. Columbia University School of Law, Report No 9, Public International Financing in India, Mimeo 1964, p. 63
4. White Paper on Indian Budget 1952-53, Government of India, p. 175. For an excellent account of the political economy of Indian development see Thomas Weisskopf, "Dependence and Imperialism in India", in the Review of Radical Political Economy, Summer 1973.

Furthermore, the US government was well aware that India was different from other developing nations in many aspects. India had a "government with a democratic political accountability almost as real as that of the United States government itself".[1] Besides, there existed a significant class of indigenous professionals and administrators. She had also assumed the leadership of the 'neutral' bloc and confronted the United States 'as a de facto equal in the realm of power politics'.[2]

Thus three factors were important for American entry into the Indian aid picture: a) The general national interest of the United States in building up a position of influence and goodwill in India, b) The desire to preclude the possibility of another 'China' and c) an element of humanitarian considerations.

It was against this background that the United States Foreign assistance programme in India started in December 1950 with the signing of the Point-Four Technical Assistance Agreement. This was followed by a Wheat Loan under special legislation in 1951. During 1953-54 assistance was increased as India was considered a special case. In 1957 Development Assistance was replaced by the newly established Development Loan Fund and also, later the Export-Import Bank. The P.L. 480 programme was started towards the end of 1956. The concept and nature of American foreign assistance was widened during 1954-57 to include large amounts of commodity aid. A new phase in the Indo-US aid relations can be perceived around 1958 when India was facing serious foreign exchange difficul-

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1. John Lewis, Quiet Crisis in India, Bombay 1963, pp. 251-52.
2. Ibid., p. 252
3. The Point-Four declaration may be regarded as the political recognition of the need to asist Asia's development though the magnitude of the problems was only dimly understood. Awareness of Africa was non-existent. For a discussion of this programme see S. Chandrashekar, American Aid and India's Economic Development, New York 1965, pp. 59-60.
4. The shipments under the Wheat Loan were preceded by bitter and lengthy debates in the US Congress. The political impact of the assistance eventually sent was diminished by the

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ties during her Second Five Year Plan. This phase ended around 1964 when the US attitude towards India became tougher.

As we shall see American foreign assistance policy towards India was influenced by such factors as India's stand during the Korean War, her attitude to the Soviet Union and the rest of Eastern Europe. The Indian foreign policy of neutrality and non-alignment was another factor which came to influence the Indo-US relations throughout the period under study. We shall also see that the US foreign assistance policy, in particular during the 1950s, developed in a piece-meal fashion rather than as a process of deliberate planning.

The Indo-US relations did nor begin in an atmosphere of harmony and understanding. The US policy viewed foreign assistance primarily as an instrument for "reinforcing positions of allied military strength around the periphery of the communist world".[1] Foreign assistance was, thus, a 'frank adjunct to the cold war'. India, however, did not believe in the philosophy of 'blocs'.

The failure of monsoon in 1950 resulted in an acute shortage of foodgrains and India faced near-famine conditions. Indian request for substantial supply of grains to meet the food crisis was not received with great enthusiasm by the US Congress. The Americans were not 'pleased' at all because India had abstained from the original Security Council Resolution of June 27, 1950, which recommended UN military assistance to the Korean Republic to help it deter aggression.[2] India had not only officially criticised General MacArthur's crossing of the 38th parellel but she had repeatedly called for Communist China's admission to the UN. The United States

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bitter opposition in the US against India's foreign policy.

US Congressional Record, 82nd Congress, First Session, Vol. 97, Part 2, quoted in Neelambar Hatti, "External Assistance to India from Western Governments", in Economy and History, Vol. XVI, 1973, p. 56

1. John Lewis, op. cit., p. 253.
   See also Gunnar Myrdal (1970), op. cit., p. 339-41.
2. Charles Wolf, jr., op. cit., p. 145.

did eventually agree to provide India with foodgrains to meet the crisis but subject to terms and conditions which Indian government found rather difficult to accept. The Indian reaction was sharp and the Prime Minister said: "India was not so down and out to accept any condition dictated by any foreign country in the matter of importing food that sullies our honour/.../ If India shows complete helplessness at this hour and becomes dependent upon charity of an outsider power, she will lose her freedom".[1] After many bitter debates in the US Congress, first agreement covering the food loan was signed eventually.

As a matter of fact, during the early years of the aid debate (1950-52), the US legislators loudly and frequently complained that India showed neither sympathy nor understanding of America's international problems and urged that assistance to India be terminated.[2] However, there were many legislators who were sympathetic to India and also humanitarian concern coupled with a fear of impending danger to India's infant democracy prevailed over anti-Indian attitudes. Moreover, Chester Bowles, who was the last ambassador to India under the Truman Administration, made serious efforts to bring in an element of harmony into the Indo-US relations.[3]

The establishment of the Technical Cooperation Mission (TCM) signalled not only an improvement in the Indo-US relations but introduced a new element in the United States foreign assistance programme. The objecitve of the TCM was to pro-

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1. A speech at Bulandshahar in May 1951, as circulated by Press Trust of India. Quoted in Ajit Roy, Economics and Politics of U.S. Foreign Aid, Calcutta, 1966, p. 28

2. Congressional Record, June 28, 1952, pp. 8551-52, quoted in Chandrashekar, op. cit., p. 64.

3. Bowles continued to champion the cause of India. As late as 1968 he wrote that India should be helped to become as selfsufficient and politically viable nation. "Such an India will make its own massive contribution to world peace by demonstrating to the peoples of Asia, Africa and Latin Ameica that democracy can achieve/.../ a society that is both prosperous and free".

   American Reporter Supplement, (USIS, New Dehlhi), October 23, 1968

vide 'aid to the peoples of the underdeveloped areas by encouraging the exchange of technical knowledge and skills'. The arguments for extending technical and economic assistance to India and Southern Asia was expressed clearly in Mutual Security Act of 1951: "Poverty, disease, illiteracy and resentments against former colonial exploitations are our enemies/ .../ They represent turbulent forces which the communist exploits at every opportunity".[1] Therefore, it was better to make sure that forces of nationalism and of the drive for economic betterment are associated with the free world and the United States instead of with the communists.

The attitude that foreign assistance should be regarded primarily as an instrument for reinforcing positions of allied military strength around the periphery of the Communist World, adopted largely by the Truman Administration, was strengthened during the Eisenhower era.[2] India's policy of non-alignment was considered definitely 'immoral' by John Foster Dulles.[3] Moreover, he also considered Goa as a Portugese province. Such statements could only worsen the Indo-US relations. The situation deteriorated further with the creation of such military alliances as SEATO and CENTO. The United States military assistance to Pakistan was very disturbing for India because it forced her to divert more resources for defence purposes. Moreover, the Indian government's advocacy of public enterprises[4] displeased the Eisenhower administration, which felt morally committed to the promotion of private enterprise overseas. That the US assistance to India continued to flow despite all the frictions was because a) America viewed economic development of India and China as a race in which the US

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1. Mutual Security Act of 1951 Senate Hearings, Washington D.C. 1952, p.5
2. Lewis, op. cit., p. 253
3. Dulles' disapproval of India dates back to 1947. In New York Herald Tribune of 18 January, 1947 he is reported saying: "In India Soviet Communism exercises a strong influence through the Interim Hindu Government". Quoted in Columbia University School of Law, Report No. 9, op. cit., p. 65.
4. For a detailed discussion of Indian resentment against private enterprise in the early yeats of independence see, Gunnar Myrdal, Asian Drama, Vol. II, New York 1968, Chapter 17.

must support India and b) it was coincidal in time with the American military assistance to Pakistan.

American assistance was increased in 1954 with the entry of the Soviet Union into the field of economic assistance to India. The Soviet Union expressed her willingness to provide technical and financial assistance for major public sector industrial projects.[1] The visit of Bulganin and Kruschev to India in 1955 had further impact on the US foreign assistance attitudes towards India. Moreover, as mentioned earlier, foreign assistance was also considered as an effective instrument for exercising political influence.[2]

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1. The Soviet willingness to provide assistance to India gave rise, especially in the US, to various interpretations of the motives for Soviet aid. For instance, a Special Report to the Senate declared that "American aid is intended to foster economic growth and high living standard/. ../ This cannot be the long-term purpose af Soviet economic assistance; national independence in the American sense is incompatible with Moscow's long term design". Foreign Assistance Activities of the Communist Bloc and Their Implications for the United States, A Study Prepared by the Council of Economic and Industry Research Inc., Washington, D.C. 1955, p. 21. Quoted in P.J. Elridge, The Politics of Foreign Aid in India, London 1969, p. 55 But the Soviet aid, whatever the original motives, has certainly failed to influence India towards communism. It is possible that Russia's intention was to maintain the power balance in Southern Asia by keeping India as 'neutral' as possible. It is, however, probable that Russia originally aimed at exporting its own pattern of industrialisation with emphasis on heavy industries, in an attempt to demonstrate that her methods represented the true path to rapid development. In this they may have succeeded because the Mahalanobis Plan Frame for the Second Plan called for the promotion of rapid growth by "increasing the scope and importance of the public sector" and through the development of heavy industries. See, A.H. Hanson, The Process of Planning: A Study of India's Five Year Plans 195o-64, London 1966, for an analysis of the plans. For a brief account of the Mahalanobis Model see, S. Subramaniam, Die Wirtschaftsentwicklung Indiens, 1951-1961, Tübingen 1965, pp. 7-25. See also, A.S. Bhalla, "From Fel'dman to Mahalanobis in Economic planning", Kyklos, XVIII, Fags 1 (1965).

2. It has been argued that economic assistance from the powerful to countries with less power, from the metropole to satellites, is an instrument of power politics, See K K.B. Griffin and J.L. Enos, "Foreign Assistance: objectives and Consequences", in Economic Development and Cultural Change, Vol. 18, April 197o.

Consequently, there was a substantial increase in the volume of assistance as well as a marked softening in the terms of assistance.

On the eve of the Second Five Year Plan, the then American ambassador to India indicated his country's willingness to foot the entire foreign exchange need during the plan period provided the Indian government changed her policies. The Government was, however, not willing to change the foreign policy of neutrality and non-alignment.[1)]

One of the major American objections to large-scale assistance to India arose from India's stated goal of evolving a "socialist pattern of society".[2)] An important role was

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1. The then Indian Finance Minister remarked, "I know that if would change our international policy we could get aid in almost fantastic proportions." In The Statesmen, November 27, 1955.

2. A definition of the concept of the "socialist pattern of society is not found anywhere in Indian official political literature. The are, however, countless references to it in the Five Year Plans and in the speeches of politicians.

   Second Five Year Plan stated: "The socialist pattern of society is not to be regarded as some fixed or rigid pattern. It is not rooted in any doctrine or dogma. The accent of the socialist pattern is on/.../ the raising of living standards, the enlargement of opportunity for all, the promotion of enterprise among the disadvantaged class, and the creation of sense of partnership among all sections of the community". pp. 23-24

   The attainment of this objective was explicitly included in the Congress Party aims at the Avadi session in 1955. The Indian press, mostly owned and directed by private businessmen, in their comments noted the lack of definitiveness. For instance, The Times of India (January 19, 1955) remarked that the phrase 'socialist pattern' was well adopted to Nehru's "all too flexible approach" with "his distaste for details and a penchant for soaring well above the earth, if not in the clouds". For a detailed account of India's "socialist pattern" see, V.T. Krishnamachari, Fundamentals of Planning in India, Bombay 1962, particularly chapter 1. See also V.K.R.V. Rao, "An Indian Conception of Socialist Society", in N.V. Sovani and V.M. Dandekar (ed), Changing India: Essays in Honour of Prof. D.R. Gadgil, Bombay 1961.

   The extreme left in India considered the aims of "socialist pattern of society" as a swamp in which capitalism and private enterprise flourished. The aims were also

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accorded to the public sector already in the First Five Year Plan. The objective was to be a "progressive widening of the public sector and a reorientation of the private sector to the needs of a planned economy". This objective was reemphasized both in the Industrial Policy Resolution of 1956 and the Second Five Year Plan. The State was to assume a "predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities" and "all industries of basic and strategic importance, or in the nature of public utility should be in the public sector".[1] The Second Plan continued: "The State has therefore to assume direct responsibility for the future development of industries over a wider area:"[2]

It is this stated objective of the Indian government that the Americans considered to be in direct opposition to their own philosophy of free enterprise and minimum state interference.[3] There were also other objections in the West to assisting Indian economic development. Prof. Bauer, for instance, argued that effective utilisation of external assistance required 'pure' administration and government measures for promoting a frame work for private enterprise, for effective management of monetary and fiscal system and for provi-

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compared to the political ideology of the German Social Democracy before the Second World War, which preached revolutionary ideas but practiced a mild revisionism. See S. Subramaniam (1965), op. cit. p. 29.

In an interesting analysis of the class structure in independent India, Weisskopf has argued that while the political base of the Congress Party precluded serious challenges to "the sanctity of private property", exegencies of electoral politics demanded that the Congress Party raise "the banner of social and economic change as well as that of nationalism". To this end, the rhetoric of a 'socialist pattern of society' proved very useful.

See Thomas Weisskopf, "Dependency and Imperialism in India", in The Review of Radical Political Economics, Summer 1973, pp. 69-75. For an analysis of the concepts of socialism in some South Asian countries, including India, see Gunnar Myrdal (1968), op. cit., Chapter 17, Volume II.

1. Government of India Press Release, November 22, 1956.
2. The Second Five Year Plan, New Delhi, 1956, p. 45.
3. Gunnar Myrdal (1968), op. cit., p. 724

ding education and communication channels.[1] He believed that the Indian government had failed to take such measures. It had neglected these essential functions and emphsized state-owned industries which could only make theoretical profit. Therefore, extending aid to India was wasteful in the long-run.

Prof. Milton Friedman, another critic of foreign assistance argued that "in the long-run it will almost surely retard economic development and promote communism/.../ Instead we should concentrate on promoting world-wide economic development through means that are consonant with itself - strengthening of free market domestic economies in the less developed nations, removal of obstacles to private international capital and the fostering of climate favorable to international investment".[2] Friedman seems to have equated emphasis on public sector with socialism. Moreover, he appears to have failed to understand that the role of the state may not be entirely due to modern socialist trends. As Prof. Arthur Lewis has pointed out: "It is due to a greater extent to the burden of initiative which falls upon the governments in the underdeveloped countries where entreprenuers are scarce and risks large. Everyone looks to the government to pioneer,

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1. P.T. Bauer, Indian Economic Policy and Development, London 1961, p. 58. For a discussion of the reasons why foreign aid in practice may retard development rather than promote it see, Bauer and Yamey, "The Pearson Report, A Review", in T.J. Byres (ed) Foreign Resources and Economic Development, London 1972, pp. 47-5o and also P.T. Bauer, Dissent on Development: Studies and Debates in Development Economics, London 1971, pp. 96-1o2.

   Among the Indian economists the leading anti-foreign aid figure was B.R. Shenoy. He has stated that foreign aid is the major factor which has permitted India to 'indulge in public sector expansion, bureaucratic policies'. He argued that withdrawing aid would have forced the planners to pursue more efficient policies, namely, those involving greater emphasis on the private sector. See B.R. Shenoy, Indian Economic Policy, Bombay 1963.

2. Milton Friedman, "Foreign Economic Aid: Means and Objectives", in The Yale Review, Summer 1958, p. 5o1.

and to mobilize capital from somewhere. So it is not appropriate to compare the role of government in Africa or Asia with the role of government in the United States or Canada".[1)]

In spite of the objections from many sides, the US assistance to India continued to expand during the late fifties and early sixties. The signing of P.L. 48o programme in 1956 had a positive impact on the Indo-US relations. The pattern of American assistance[2)] was widened to include large amounts of commodity aid and a wide variety of semi-finished and finished capital goods as well as raw materials.

The Second Five Year Plan was begun in a spirit of optimism as regards the financing of the Plan. It was hoped that the ambitious Plan would be financed by increased tax revenues. The foreign exchange needed for imported raw materials and capital equipment was expected to be obtained from increased export earnings. The need for foreign aid was anticipated to remain low. The prevailing spirit of self-sufficiency was reflected in a categorical opposition to foreign assistance.[3)]
The Indian optimism, however, proved to be very naive indeed. Anticipated tax revenues failed to materialise. The Indian private sector indulged in an import spree which was facilitated by the liberal import licensing policies of the Government. While the imports increased, the exports did not and the deficit on India's balance of trade, which averaged about $ 2oo millions a year during the First Plan, was almost a billion dollar in 1956/57 and 1,3 billion in 1957/58. And India's sterling balances dwindled from nearly $ 2 billions

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1. W. Arthur Lewis, "Helping Underdeveloped Countries", in Problems of United States Economic Development, New York, 1958, p. 14o.

2. From the policy point of view there was very little change. The objective was still to help countries generally friendly to the United States.

   Statement Policy (Section 1o2) of the Congress, quoted in Lloyd Black, The Strategy of Foreign Aid, Princeton 1968, pp. 14-15.

3. One of the staunchest opponents was T.T. Krishnamachari the then Minister of Commerce and Industry.

to $ 900 millions within two years.[1] A severe exchange crisis was the result.[2]

The payments crisis forced the Indian government to reconsider its stand on foreign assistance. There was now a loud demand for assistance from abroad.[3] Many urgent appeals to the US by Indian officials and ministers resulted in the growth of a strong pro-India lobby in the US Congress and the Administration. This lobby was instrumental in the establishment of Aid India Consortium.[4] The communist victory in Kerala in the 1957 General Elections[5] and the fear of communists strengthening their position in the following election was another factor which influenced the US attitude and policies towards India.

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1. Thomas Weisskopf, op. cit., p.58

2. Prof. B.R. Shenoy has argued that the crisis was not due to loose import licensing policies but to overvaluation of rupee. See Shenoy, "The Indian Economic Scene", Indian Economic Journal, Vol. 5, April 1958, pp. 327-352. However it is generally accepted by most economists that the exchange crisis was not directly connected with either the inflationary pressure or deficit financing: it was more due to uncontrolled and overoptimistic licensing policies. For a discussion of the causes of the crisis see, D.R. Gadgil, "Rephasing the Second Plan", in Indian Economic Journal, Vol. 5, April 1958, pp. 353-368 and Michael Kidron, Foreign Investments in India, London 1965 pp. 123-127

3. In 1957, T. T. Krishnamachari, the Finance Minister, led an official delegation on a tour of Western capitals in the first systematic attempt to raise financial assistance on large-scale. This effort was complemented in the same year by a tour of an Indian Industrial Mission led by G.D. Birla, It was on these tours that both government officials and private businessmen sought to dispel Western fears about Indian 'socialism'. See Thomas Weisskopf, op.cit., p. 59 and also R. Upadhyay, Growth of Indian Industries, Calcutta 1970, p. 172.

4. For a discussion of the origins of consortia see, John White, Pledged to Development, London 1967.

5. The Communist party actually became more reformist in outlook after winning the majority in Kerala. For a brief account of the Gommunist movement in India see, Dilip Hiro, op. cit., chapter 11 and 12. For a history of communism in India see, Mohan Ram, Indian Communism, New Delhi 1969.

The main emphasis on the policy of short-run anticommunist strategy pursued by the US was slightly shifted into an attitude towards economic development. The Consortium, established in August 1958, was to study India's developmental needs and coordinate the annual allocation of funds by various donor nations.[1)]

The creation of the Consortium marked an important landmark in the evolution of a new attitude to foreign assistance.[2)] And for many scholars and politicians in the Western world India became a rallying point for a new concept of foreign assistance a transfer of resources from the developed to the developing countries in order to achieve internationally the goals of economic opportunity for all, which had become an accepted part of national objectives in all modern societies. The new attitude was expressed by Eisenhower as follows: "To millions of people close to the Soviet and Chinese borders, political freedom is still new. To many it must still prove its worth/.../ they are fixed upon raising their standards of living. Their need for help is desperate-both technical know-how and capital/.../ Their moderate leaders must be able to obtain sufficient help from the free world to offer convincing hope or progress. Otherwise their people will surely turn elsewhere/...[3)]

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1. The World Bank, originally the convenor of the annual meetings of the Consortium, gradually went beyond this role and became an agency effectively entrusted with the task of evaluating India's economic performance. This enchanged role resulted in considerable political debate in India where the 'left' has argued that the World Bank had become a front organization for the major donor country, the United States. See J. Bhagwati and P. Desai, India: Planning for Industrialisation, London 1970, p. 182.

2. See Lester B. Pearson et al, Partners in Development: Report of the Commission on International Development, New York 1969, p. 128 and John White, The Politics of Foreign Aid, London 1974, pp. 295-311.

   For an interesting general discussion on aid relationships see I.G. Patel, "Aid Relationship for the Seventies", in Barbara Ward et al (eds), The Widening Gap: Development in the 1970s, New York, London 1971.

3. The President's Message to the Congress on the Mutual Security Program for the Year 1958, quoted in Chandrashekar, op. cit.

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The need for capital assistance, as distinguished from technical assistance and foodgrains programme, came to be explicitly stated and emphasized. The experiment of rapid economic development within the framework of democracy became sufficient 'quid pro quo' for the US assistance to India.[1)] And the United States came to be somewhat more tolerant of India's foreign policies.

Relatively liberal attitudes during the final years of the Eisenhower era and the Kennedy era were reflected in substantial increases in foreign assistance to India. The qestions of public enterprise, "socialist pattern of society" and non-alignment were treated with greater flexibility. There was less hostility towards Soviet assistance to India. The American approach became more pragmatic and the Indo-US relations improved greatly.

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Several years later, reflecting the change, Dean Rusk in a broadcast in the United States said: "... the basic fact is that there is a country with 45o million people which is the largest constitutional democracy that the world has ever seen/.../ with the basic commitments with which we are familiar. India is not a satellite of ours and we are not a satellite of India/.../ So we will have our differences but we also have great common commitments that are important. Reported in Commerce, July 14, 1962, p. 52.

1. Kennedy "liberalism" was not completely accepted in the US and frequent reassertions of more rigid ideological attitudes were becoming louder and effective. It was becoming more and more difficult for the Administration to steer the aid programme through the Congress. Appointment of the Clay Committee was an attempt to placacte the conservative elements in the Congress. The Report consisted of a series of rather dogmatic assertions based on unexamined assumptions. It firmly asserted that the US should not aid foreign governments in establishing government-owned industrial commercial enterprises which competed with private enterprises. The report also doubted the ability of the developing countries to establish and run public enterprises and concluded that aiding public sector was a sheer waste of resources. The report was instrumental in dashing Indian hopes raised during the Kennedy era that the US was less ideologically predetermined.

   See Clay Committee Report on Foreign Aid, March 25, 1963. Official Text, USIS, American Embassy, New Delhi.

Another factor which contributed to the improved Indo-US relations was the change in the Indian attitude towards the role of private sector. She seemed to have conceeded the importance of private enterprise in economic development and took a more pragmatic approach to both Indian and foreign private investment.[1] The change in the Indian attitude seems to have been partly due to subtle pressures from the US. As a consequnce of the new Indian attitude to private investment the flow of assistance from the US and West Europe increases. And India's growing dependence on foreign assistance was matched by a rapidly growing role of foreign private enterprise in the Indian economy.[2]

The Chinese attack on India in October 1962 introduced a new element into the Indo-American relations. India's strategic importance grew in the American eyes and the US sent substantial emergency military assistance, normal economic assistance being maintained at the existing level. While the US recognised the need to support India in repelling Chinese aggression, there is some evidence of disagreement between the two nations as to the extent of the Chinese threat.[3] The extent of military assistance was insufficient from the Indian point of view. The quantity was substantial but it

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1. In 1962, Nehru stated that "private enterprise is a good thing" and that "supression of private enterprise is bad". Cited in Dilip Hiro, Inside India Today, Lonton 1976, p. 1o9, Indian Investment Centre was set up to publicise the incentives offered to foreign capital. Investing in India, New Delhi 1961, G.D. Birla assured a gathering of American Businessmen in 1963 that the Indian government was "favourable and indeed much more receptive than in 1948" and that "the public sector is going to act as a generator of private enterprises". Quoted in N. Maxwell, India's China-War, London 1972, p. 292. See also Michael Kidron, op. cit., p. 157-58, and Manubhai Shah in Economic Review (All-India Congress Committee 1962, August 22.

2. See K.K. Subramaniam, "A Study of Foreign Private Investment in India Since 195o", Ph.D Thesis, Bombay University 1967, Michael Kidron, Foreign Investments in India, London 1965, National Council of Applied Economic Research, Foreign Technology and Investment, New Delhi 1971. Deepak Lal, Appraising Foreign Investment in Developing Countries, London 1975, in particular part III.

3. Lok Sabha Debates, 22 April 1963, Vol. 17, 4th Session.

was not sufficient to offset the hostility engendered by the more substantial and continuing military assistance to Pakistan over a longer period of time.[1] It is the differences here that led India to negotiate with Russia for arms, in particular for licence to manufacture MIG planes in India.[2] The Americans, of course, did not like such schemes. Another point of disagreement was the composition of the Indian Cabinet after the 1962 General Elections, which included V.K. Krishna Menon who was no friend of America.[3] These two factors were used by many US Congressmen who argued for a cut in the volume of American assistance to India. Indian reaction was sharp. Speaking in the Upper House (Rajya Sabha), Nehru said: "This unfortunately creates a result which we do not want, that is, a doubt in our minds about the goodwill of these countries towards India and unfortunately the work done for years, the work of creating goodwill/.../ is washed out by a stroke of the pen or a vote or a speech made."[4] He went on to say that there had been hints, 'almost threats', that economic aid would be reduced or even stopped altogether if India went

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1. P.J. Elridge, The Politics of Foreign Aid in India, London 1969, p. 33.

2. In fact, Russia had been supplying India with military hardware since the middle of 1960. The supplies included transport planes and helicopters. But the Indians now wanted was greater quantities of these supplies as well as more sophisticated arms and planes,

3. In May 1962, the US Senate Foreign Relations Committee effected a 25 per cent cut in the appropriation programme, which, however, was later restored at the intercession af Ambassador Galbraith. But Senator Fulbright made it known that the decision to cut the aid was a reflection of 'strong feeling' in the Committee against Krishna Menon's anti-American attitudes as well as the proposed purchase of sophisticated military hardware from Russia.
See Ajit Roy, op. cit., p. 31.

4. Times of India, 24 June 1962. Quoted in Columbia University School of Law, Report No, 9, op. cit., p. 69.

ahead with her scheme to manufacture MIG's.[1] He made it clear that "we are not going to take that aid if it means giving up our independence /.../ If we surrender our basic position now, we will have to surrender again tomorrow".[2]

In contrast to the 'liberal' policies of the Kennedy era, Johnson administration took a tougher attitude with regard to the aid policies. After the Bell Mission Report in 1964 on behalf of the World Bank, India came under increasing pressure to revise her economic policies. The US government wanted India to plan less large-scale projects and emphasize the agricultural sector so as to be able to increase her food production. The United States also wanted India to relax the government controls over both domestic and foreign enterprise. Furthermore, India was to make greater efforts to achieve self-reliance. President Johnson stated that "the United States can do no more than supplement the efforts of the developing countries themselves".[3] He went on to add that "action, not promise, will be the standard of assistance. It must be clear that the principle of our assistance is cooperation. Those who do not fulfil their commitments to help themselves cannot expect help from the United States."[4]

The hardening attitude of the US vis-a-vis India became clear during the food crisis in the late 1965, 1966 and

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1. There seems to have been considerably less objection on the American side to these schemes than might have been expected. The primary emphasis of the Kennedy Administration was that India should make economic progress by the best available means. To the extent that Soviet aid assisted this objective, at the same time relieving the US of some financial burden, the Administration was favourable, despite some Congressional hostility. Averell Harriman's statement in a TV interview on 9 December 1962, quoted by P.C. Chakravarty, "Indian Non-alignment and United States Policy", in Current History, Vol. 64, March 1963. Russia eventually increased both economic and military aid to India. Since the mid-196os, the US and Russia have more or less followed complementary, rather than competitive policies towards India.
2. The Times of India, 24 June 1962, quoted in Columbia University School of Law, Report No. 9, op. cit., p. 69.
3. Message on Foreign Aid, February 2, 1966, p. 6
4. Ibid., p. 6

1967 when India was struck by the worst drought of the century and faced a huge deficit of foodgrains. Indian request for help was not immediately complied with as she had incurred the 'displeasure' of the United States and a temporary suspension of foreign assistance because of the Indo-Pak war in late 1965.[1] Johnson "declined to sign a new food-for-peace program", insisting that "India must first take some hard decisions about her food policy".[2] Furthermore, the United States applied pressure on India, directly as well as through the World Bank, to persuade her to "provide easier terms for foreign private investment in fertiliser sector".[3]

The Indian government gave way to the pressure and, in December 1965, let herself be persuaded to sanction new ventures in the private sector with majority foreign capital, mainly American, as well as to relax controls for seven years over the fertiliser industry.[4] This was a complete reversal of the policy stated in the Industrial Policy Resolution of 1956 which explicitly placed the fertiliser development in the public sector.[5]

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1. According to White, Indo-Pak conflict was of great signicance for "crystallizing and confirming on a grand scale the numerous reports already current about waste and responsibility in the use of aid". See John White (1974), o. cit., p. 224. This argument is unacceptable because when India was attacked by China, the United States assistance was not only not suspended, but it was accelerated, both in volume and variety. This only goes to show that foreign assistance has very clear strategic and political overtones.

2. New York Times, 18 December 1965. Quoted in M. Tanzer, The Political Economy of International Oil and the Developing Countries, Boston 1969, p. 254

3. New York Times, 15 May 1966. Quoted in Tanzer (1969).

4. This decision was an important factor in the resignation of the Finance Minister, T.T. Krishnamachari, who strongly resented the increasing American pressure on India to liberalise her economy.

5. For excerpts from the Resolution see P.J. Elridge, op. cit., appendix 2. For an overall statement of the government policy towards the private sector see Manubhai Shah, Minister of Commerce and Industry, in Economic Review (AICC), 1 July 1963.

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The pressure on India to change her economic policies continued unabated, and produced a vocal, though ineffective, nationalist reaction.[1] There were three factors which adversely affected Indo-US relations during this period. Firstly, the suspension of assistance during the Indo-Pak conflict which was not resumed until April 1966 - long after the hostilities had ceased. Secondly, The foodgrain shipments under P.L. 480 were held up and eventually authorised on a month-to-month basis although the situation in India was close to famine. Finally, it was made clear to India that future Consortium assistance would be extended only if the economy was liberalized and the rupee devalued.[2]

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The general relaxation of controls over both Indian and foreign private capital and the decision to let private investment into fertiliser development may also have been influenced other considerations. The growing strength of the now-defunct Swatantra Party, which was a businessmen's party, may have played an important role in the decision of the Indian government to deviate from its publicly stated policies on industrial development, and thus make Swatantra Party less attractive to Indian businessmen. See Ashok Rudra, in Economic and Political Weekly, 1 November 1969, p. 1739

1. Attempts to influence important policy issues in developing countries have frequently met with strong opposition. See A.O. Hirschman and R.O. Bird, "Foreign Aid: A Critique and A Proposal", Essays in International Finance, No. 69, July 1969, Princeton University. See also Teresa Hayter, Aid as Imperialism, London 1971.

2. According to Bhagwati and Desai, there is little doubt that the devaluation was adopted under great pressure exerted by the US, both directly and through the World Bank. See J. Bhagwati and P. Desai, India: Planning for Industrialisation, London 1970. For a detailed analysis of India's experiments with economic liberalism after 1966 see chapter 20 of the book. It may be of interest to note that in a brief article published a couple of months before the devaluation, Kang has discussed why it was very unlikely that India would devalue the rupee. He argued that India would not devalue because of the disadvantageous effects of devaluation on the price level, terms of trade, the inelastic supply of her export goods, and the inelastic demand for Indian imports. See, Chen N. Kang, "Indian Rupee and Devaluation", in Indian Economic Journal, April-June 1966, pp. 731-38.

Once again the Indian government gave in and the rupee was devalued by 58 per cent.[1] She also liberalised the licensing policies which the Americans had considered to be a major obstacle to foreign capital participation. The American pressure was very effective because a large part of the foreign exchange needed to finance India's development was provided by the United States. India had little choice but to agree to many of the terms put by the US, either directly or through the World Bank.[2] India had nowhere else to turn.

The US persisted in the belief that there was a big stake of the free world in the economic problems of India.[3] She

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1. The economic impact of the liberalisation of the economy is debatable. There is, however, very little doubt that the Indian economic conditions did not improve. But this failure is sometimes attributed to exogenous factors such as the second successive year of drought as well as the lack of enthusiasm with which the Government pursued the new economic policy. See, Bhagwati and Desai, op. cit., p. 287.
   It can be noted here that after the devaluation a large volume of literature dealing with various aspects of devaluation sprang up in India. Some of them are mentioned below.
   B.P.S. Bhadouria, "Screening the Pre-Devaluation Crisis and Post-Devaluation Prognoses", Part I in May 1967 and Part II in August 1967 issues of Asian Economic Review.
   A.K. Das Gupta, "On Devaluation", Afro-Asian World Affairs, 3 (4) Winter 1966, pp. 306-12.
   Indian Merchants' Chamber, Challenge of Devaluation, Bombay 1966.
   B.S. Minhas et al, "Economic Consequences of Devaluation and Policy Recommendations", Yojana 10 (12), 26 June 1966.
   P.K. Srivatsava and J. Sahai, Economic Consequences of Devaluation, Institute of Economic Research, Kanpur 1966.
   C.N. Vakil, Devaluation of the Rupee: A Challenge and An Opportunity, Bombay 1966.
   V.C. Shah, "Devaluation - The Indian Case", Indian Economic Journal July-September 1970.
   For discussion of devaluation in general see, Harry Johnson, International Trade and Economic Growth, London 1958 and G. Meier, International Trade and Development New York 1963.

2. For an excellent account of the mysterious ways and the pressure tactics of the World Bank see, Teresa Hayter, Aid as Imperialism, London 1971.

3. The prime reason for this was no doubt the American desire to see India win the economic race against Communist China and thus establish superiority of the western-style democracy to Communism to the rest of the Afro-Asian World. See, Dilip Hiro, Op. cit., p. 248.

felt that programs of loans and technical assistance were as essential as the production of military hardware.[1] Yet the US asserted that this was not the only reason for providing assistance. In delivering his first message to Congress on foreign aid, President Nixon said that there were other reasons for American foreign aid programmes. "There is a moral quality in this nation that will not permit us to close our eyes to the want in this world".[2] This appears to be a rather insincere statement in the light of Nixon's observation in his Foreign Policy Report of 1972; "We deal with individual nations on the basis of their foreign, not their domestic policy" and also Kissinger's statement in the same year that "while our preference is perfectly clear, the foreign policy is designed to promote our best interests and to preserve our own political institutions".[3]

Thus, three main phases can be noted in the pattern of Indo-US aid relations during 1950-1970. Firstly, we discern a period of uneven development until about 1958. This period has also been labelled as an Era of Cross-Purposes by an apologist for the US aid policies.[4] Secondly, the period 1958-64 which could be considered as a relatively 'liberal' period. This period saw many 'innovations'[5] in aid-giving, and can be seen as a transitory period in the evolution of the American aid policies towards India as well as in general. And finally, we have the period from

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1. Generally speaking, Myrdal states that if the big item in aid appropriations and disbursements, which was directly a part of the US political and military involvement in Vietnam, the low level of development aid become more accentuated in the course of the 1960s. See, Gunnar Myrdal (1970), op. cit., p. 352.
2. Quoted in Myrdal (1970), op. cit., p. 355.
3. Cited by M.V. Kamath, "India and the United States", in The Illustrated Weekly of India, January 23, 1977, p. 14
4. John Lewis in Commerce, Annual Number 1964
5. See John White, The Politics of Foreign Aid, London 1974, p. 213 .

1964 onwards when the United States, after the Bell Mission Report, took a tougher attitude and began to increase pressure on India to persuade her to change the economic policies.[1)]

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1. In particular during the Nixon administration, the American attitude became harder. Henry Brandon has stated that the Nixon administration was "frankly and brutally anti-Indian". Until the Bangladesh War, it was standard administration policy to cold-shoulder India. According to Brandon, there was in Mr. Nixon "a basic anti-Indian prejudice, dating back beyond the Nixon administration, for what was considered to be India's arrogant moralising attitude in the United Nations against the United States". Nixon also a "personal pique with India that shone through everything and was widely attributed to the meagre reception he got there on his visit efter losing the election against Kennedy in 1960. See Henry Brandon, The Retreat of American Power, Bodley Head 1973. p. 252.

Chapter IV

The Indian Plans and External Assistance

Attempts had been made long before independence to draw up plans for economic development of India. However, compared to the plans of the 1950s and 1960s, these attempts were rather crude. Nevertheless, they are interesting documents because "they familiarized educated people with the idea of planning, revealed the scale of tasks that had to be attempted/.../ sketched out many specific projects which were subsequently taken up, and indicated some of the decisions that had to be made before planning should become a practical as distinct from a theoretical exercise".[1)]

The first attempt to produce an Indian economic plan was made in 1929 by a distinguished engineer, Sir M. Visvesvarayya.[2)] The essence of his planning was industrialisation. He proposed doubling the national income over a period of ten years. It involved an increase of Rs. 500 crores in agricultural production. The industrial production was to increase from Rs. 400 crores to Rs. 2000 crores over the same period.[3)] At the same time the total population supported by agriculture was to decrease by 50 million and industrial population was to increase by 35 million. The private enterprise was expected to provide most of the impetus for a rapid change in the industrial sector. Visvesvarayya emphasized the need to enlist active and willing cooperation of private business.[4)]

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1. A.H. Hanson, The Process of Planning: A Study of India's Five Year Plans 1950-1964, London 1966, p. 27.
2. Sir M. Visvesvarayya, Planned Economy for India, Bangalore 1929.
3. Ibid., p. 196-97
4. For a brief discussion of his ideas see Hanson, op. cit., pp. 30-31.
   Visvesvarayya's enthusiasm for private business as the 'motor' of economic development was not shared by the Congress leaders of the time. He did, however, have a great influence on the industrial development of his native state, Mysore. This princly state experienced a substantial growth of industrial enterprises during the period 1931-1941.
   For a systematic survey of Indian economic thinking, see Joseph J. Spengler, Indian Economic Thought, Duke University Press, Durham 1971.

The success of the Congress Party in the 1937 provincial elections and the acceptance of ministerial responsibility in several provinces gave immediacy to the questions of economic policy and underlined the need for planning on a national scale.[1] Despite the disagreements between Mahatma Gandhi and Jawaharlal Nehru on a number of fundamental matters such as factory versus cottage industry, and centralisation versus decentralisation, National Planning Committee (NPC) was appointed by the Indian National Congress in 1938 under the chairmanship of Nehru to produce a full plan which would apply to a free India. Nehru, who was a Marxian socialist at this period, wanted as much socialism as possible but was always prepared to compromise for the sake of unity.[2]

NPC defined planning 'under a democratic system' as "the technical coordination, by disinterested exports, of consumption, production, investment, trade and income distribution, in accordance with social objectives set by bodies representative of the nation. Such planning is not only raisconsidered from the point of view of economics, and the ing of the living standard, but must include cultural and spiritual values, and the human side of life".[3]

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1. See K.T. Shah (ed), Report of the National Planning Committee, Bombay 1949.

2. Subsequently Nehru wrote: "... The cooperation seemed to me worthwhile even if it involved toning down or weakening the plan in some respects/.../So long as a big step in the right direction was taken, I felt that the very dynamism involved in the process of change would facilitate further adaptation for progress". See Discovery of India, (1956). p. 4o6.
   For an illuminating exposition of Nehru's Marxist socialism see Jawaharlal Nehru: An Autobiography, London 1958, pp. 36o ff.

3. Quoted in H. Venkatasubbiah, Indian Economy Since Independence, Bombay 1961, p. 292.

   This statement is very interesting because it reflects the hand of Nehru and the voice of Gandhi. Gandhi believed in change through a spiritual revolution. He sought to change the individual, whereas Nehru sought to change the society. Gandhi was afraid that industrialisation was going to be the curse of mankind and that moral, spiritual and cultural values would disappear. Nehru, on the other hand, believed in the crash of huge modern machines, in mechanizing agriculture and in promoting rapid

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The difficulties faced by the NPC were enormous. Lack of data and statistics was one of the main problems. Lack of cooperation from the Indian government was another problem. The apprehensions of the representatives of big business in the NPC was yet another difficulty.[1] Moreover, the economic policy statements of the Congress Party were not very clear-cut.

Several suggestions were made by the NPC. For instance, it was proposed that as means of accumulating revenue 'for the nation building activities of the State', all key industries 'should be progressively nationalised and administered by a statutory corporation created for the purpose'.[2] Individual enterprise in agriculture was regarded as temporary while the transition to collective or cooperative farming was being made.[3] However, due to the political conditions in India during the Second World War, the NPC was unable to prepare a comprehensive blue-print of an economic plan for India.

Steps were taken by the Indian government as well to study the problems of economic development. For instance, in June 1944 a Planning and Development Department was created, and the provincial and state governments were requested to establish their own planning organisations.[4] The aim was to

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urban industrial growth.
See S.N. Agarwal, The Gandhian Plan of Economic Development for India, Bombay 1944 and Jawaharlal Nehru: An Autobiography(1958). On Gandhi's anti industrial economic views, see his Economic Thought, edited by J.S and A.S. Mathur , Allahabad 1962 and Industrialize- and Perish, selected by R.K. Prabhu, Ahmedabad 1966.

1. Nehru (1956), op. cit., pp. 400-1.
2. K.T. Shah, op. cit., p. 188-89.
3. Ibid., pp. 223-24
4. For details, see Hanson (1966), op. cit., pp. 35-41. For a discussion of various preindependence plans see also M.H. Gopal, Aspects of India Economic Policy, Mysore 1967, pp. 48-54
Some of the official plans were Plan of the Post-War Reconstruction Committee, The Sargent Plan for Education, The Plan of the Central Technical Power Board and The Plan for the Development of Agriculture and Animal Husbandry.

draw up five-year plans for economic development. We shall, however, not go into details concerning the results of these organisations.

Perhaps the most well-known preindependence plan was the so-called 'Bombay Plan'. In January 1944, eight leading industrialists chalked out a 'Plan of Economic Development of India.'[1] This plan envisaged planning within the capitalist economy for boosting standard of living of the Indian people within a definite period of time.

The Bombay Plan was a fifteen-year plan, divided into three five-year plans, involving an expenditure of Rs. 1o.ooo crores.[2] The objective was to raise "the national income to such a level that after meeting the minimum requirements, every individual would be left with enough resources for enjoyment of life and for cultural activities".[3] The methods proposed anticipated, in an embryonic form, the basic strategies of the first three post-independence five-year plans.

It was aimed at trebling the national income and doubling the per capita income over fifteen years. A two-fold increase in agricultural output and a five-fold increase in industrial output was to be achieved during the plan period. Thus the emphasis was on an intensive development of industries. Basic industries were stressed more than consumer goods industries. In order that the disproportion between basic and consumer goods industries did not become too large, it was proposed to make the fullest possible use of small-scale industries as well as the cottage industries in the production of consumer goods.[4] The State was to play a central role.

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1. Purshotamadas Takurdas et al, A Plan of Economic Development of India, Bombay 1944,
   For an analysis of this plan see Bimal C. Ghose, Planning for India, Calcutta 1944.
2. Purshotamadas Takurdas et al (1944), p. 6
3. Ibid., p. 3
4. Ibid., p.7 and 27.

Of the proposed total investment of Rs. 10.000 crores, only Rs. 700 crores was to be borrowed from abroad. No less than Rs. 3.400 crores was to be 'created'.[1)]

In contrast to the empirical approach of the Bombay Plan, the so-called 'People's Plan', also from 1944, was ideological.[2)] It assumed the desirability of socialism. In this respect, the plan anticipated the 'socialist pattern' of the Second Five-Year Plan. Moreover, the plan laid emphasis on agricultural development.

Despite the faults and inadequacies of the preindependence plans, they suggested many useful ideas. Professor Das Gupta has thus summarized the long-term significance of these plans: "Structurally the First Five Year Plan may be said to be an off-spring of the Bombay Plan. The formulation of a growth target, the application of the concept of investment by 'created money' which is another name for deficit financing all apparently derived from the Bombay Plan/.../ The later emphasis on socialism may perhaps be traced to the framework of the People's Plan".[3)]

The preceeding account of the preindependence plans has been given mainly for the purpose of understanding the five year plans of the post-independence era. The earlier plans hardly made any mention of assistance from abroad because with a large and varied endowment of natural resources and a big population, India did not have to depend much on external resources or external markets.[4)] The enforced subordination of educated and Westernized Indians prior to 1947 also influenced the attitude towards assistance from abroad.

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1. Purshotamadas Takurdas et al (1944) p. 6
2. M.N. Roy et al, People's Plan for Economic Development of India, being the Report of the Post-War Reconstruction Committee of the Indian Federation of Labour, New Dehlhi 1944.
3. Quoted in Hanson (1966), op. cit., pp. 43-44.
4. Thomas Weisskopf, "Dependence and Imperialism in India", in The Review of Radical Political Economics, Summer 1973, p. 53

Soon after independence in August 1947, Indian leadership focussed its attention on the process of fulfilling the economic promises of freedom. Economic planning was accepted as 'easy in faith' and a 'venture of spirit'. As regards the problem of financing the plans, the idea of external assistance was favourably looked upon.

Nehru's concept of socialism strongly emphasized economic self-reliance to be achieved by central economic planning and a foreign policy of non-alignment.[1] Hence it was argued that as a recipient of assistance from abroad India may not be able to maintain her neutrality. No nation would provide assistance for nothing in return. Moreover, the long and bitter experience of the colonial period was still fresh in mind.[2] The Indian government was,[3] therefore, in favour of a path of economic development in which external assistance would play a very minor role.

However, the spirit of self-sufficiency did not prevail for long because, during the Second Plan[4] it became clear that external assistance would be essential for India's rapid economic development. It was officially accepted that the domestic resources needed to be supplemented for various reasons. It was stated that scientific, technical and industrial knowledge could be best secured along with capital from abroad. By and By, external assistance came to play an important role in Indian economic development.

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1. Thomas Weisskopf, "Dependence and Imperialism in India", The Review of Radical Political Economics. Summer 1973 page 53.
2. Jawaharlal Nehru, Glimpses of World History, Indian edition 1962, p. 59o.
3. For a brief and illuminating analysis of Indian development policy during the First and the Second Five Year Plans see, S. Subramaniam, Die Wirtschaftsentwicklung Indiens 1951-61, Tübingen 1965, pp. 29-36.
4. Towards the end of 1955, both the Finance Minister, Mr. C.D. Desmukh and the Minister of Commerce and Industry, Mr. T.T. Krishnamachari had publicly proclaimed their indifference to external assistance. But only a year later the Indian government was desperately requesting for such assistance. See A.H. Hanson (1966), op. cit., p. 132.

The First Five Year Plan 1951-56

When India became independent, a substantial amount of foreign exchange reserves were available, accumulated from unrequitted exports from India to Britain during the Second World War. Furthermore the fervour and enthusiasm created by the attainment of freedom was still fresh and alive. Accordingly, the First Plan[1] was drafted in a mood of confidence.

The Plan, which included several projects planned prior to 1950, was very modest with a total capital outlay of Rs. 2069 crores. The contribution of external assistance was expected to be Rs. 156 crores or about 7 per cent of the total[2]. However, when the plan period ended in 1956, the total investment, both public and private sectors, amounted to Rs. 3.260 crores, the contribution of external assistance being about Rs.195 crores, or 5.8 per cent of the total outlay.[3]

Second Five Year Plan 1956-61

This plan was much more comprehensive than the First Plan. Successful achievements of the First Plan suggested to the Indian government that a much bigger plan was feasible. Accordingly, the investment envisaged, in the beginning of the Second Plan, was Rs. 4.800 crores, requiring a foreign exchange of the order of Rs. 1.100 crores.[4] Of the estimated foreign exchange requirement, it was thought that Rs. 200 crores could be obtained from exchange reserves. The remaining amount would be made up by unutilised external assistance authorised during the First Plan and fresh authorisations. Estimates of external assistance remained fairly

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1. See First Five Year Plan-A Draft Outline, Delhi 1951 and First Five Year Plan, Delhi 1952.
2. First Five Year Plan (1952), p. 62
3. See Review of First Five Year Plan (1952). For a critique of this Plan see Vakil & Brahmanand, Planning for an Expanding Economy, Bombay 1956, Alak Ghosh, New Horizons in Planning, Calcutta 1956 and R. Balakrishna, Recent Trends in Indian Finance, Madras 1955, pp. 145-169.
4. Second Five Year Plan-A Draft Outline, Delhi 1956, p. 24 and 27.

low because it was expected that additional resources could be generated from the profits of public enterprises and deficit financing.[1] Despite the optimistic assumptions of the planners regarding the sources of finance, there remained a significant gap between anticipated outlays and resources for the Second Plan. Nevertheless, Prime Minister Nehru stated: "All these gaps that you see, the gaps that people lay stress on, the differences of Rs. 8oo crores or whatever the gap is supposed to be in our foreign exchange and other matters, all these gaps can be very largely covered if we can increase our agricultural production. In fact it is the surest and easiest way of covering."[2]

But such optimism was misplaced. Utilisation of external assistance during the first two years of the Plan amounted to about Rs. 38o crores. And the foreign exchange resources began to dwindle rapidly. For instance, in a single year, 1956-57, use of foreign exchange resources and external assistance exceeded the amount used during the whole of the First Plan.[3] In early 1957, the Indian Government realised that the foreign exchange gap would be 'substantially larger than the original estimate of Rs. 1.1oo crores', and far more external resources than the 'Rs. 9oo crores envisaged by the Plan' would be needed.[4]

The second year of the Plan witnessed a major foreign exchange crisis. By the end of March 1958 the decline in foreign assets amounted to Rs. 48o crores.[5] A rapid increase

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1. Thomas Weisskopf, op. cit., p. 57.
   The optimism was such that shortly after the initiation of the plan, its size was raised from Rs. 48oo crores to Rs. 5.3oo crores, the bulk of the increase in investment being such as would add to India's exchange needs.
2. Quoted in A.H. Hanson (1966), op. cit., p. 152.
3. D.T. Lakdawala, "Foreign Capital and Economic Development", in Indian Economic Journal, Vol. XV, No. 3, 1968, p. 325
4. Budget 1957-58, White Paper (Government of India), quoted in A.H. Hanson (1966), op. cit., p. 154
5. Appraisal and Prospects of the Second Five Year Plan, Planning Commissions, Delhi, May 1958, p. 15.

in import due to greater emphasis on industrialisation, difficult food situation in 1957-58 necessitating substantial imports of foodgrains, and increased transportation costs due to the Suez crisis were some of the important factors contributing to the crisis.

Towards the end of the First Plan private sector investment had slackened, future investment decisions having been postponed until the finalisation of the Second Plan.[1] As a consequence of the realisation of these investment decisions following the finalisation of the Second Plan, there was a sudden expansion in imports requiring bigger foreign exchange allocations.

The agricultural production has always been prone to fluctuations in India, due to changing monsoon conditions. The total foodgrains production in 1957-58 was only about 63 million tons as compared to 69 million tons[2] in the preceeding year. Consequently, larger imports of foodgrains became essential, thus increasing the need for foreign exchange. Yet another factor which increased the strain on India's foreign exchange resources was the closure of the Suez canal.[3] The Canal was the most important trade route between India and her suppliers. The diversion of the route after the closure increased the freight bill which was paid in foreign currency.

As a result of the exchange crisis, a reappraisal of the Second Plan became inevitable. The size of the plan was cut back to the original Rs. 4.800 crores, and later had to be further contracted to Rs. 4.600 crores.[4] The Plan was now

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1. See B.R. Shenoy, "Indian Economic Scene", in Indian Economic Journal, Vol. V, No. 4, 1958.
2. Planning Commission, Basic Statistics Relating to Indian Economy, 1950-51 to 1958-59, New Delhi 1959, Table 16.
3. See Reserve Bank of India Bulletin, RBI, Bombay, July 1958, p. 638.
   See also B.R. Shenoy, op. cit.
4. Appraisal and Prospects (May 1958), pp. 5-6

divided into two parts. Part A included ' core' projects and was given absolute priority. The 'core' was defined as 'steel, coal, transport and ancillary power'. Remaining projects were included in Part B. Foreign exchange committents were made only for the execution of 'core' projects. The revised estimate of foreign exchange requirements increased from the original Rs. 1.1oo crores to Rs. 1.7oo crores.[1] The final total investment, for both public and private sectors, amounted to Rs. 6.75o crores.[2] The contribution of external assistance was about Rs. 1.43o crores or nearly 21 per cent of the total investment.[3]

The major consequence of the exchange crisis was the inevitable recognition of the need for external resources. The Planning Commission stated: "For a while foreign exchange resources can help tide over balance of Payments deficits, but before long, a country has no alternative but to adjust its expenditure to what it can currently earn or borrow abroad".[4] The earlier reluctance to request for external assistance changed into a vocal request for such assistance. The need for external assistance could no longer be treated as marginal and as one of supplementing the general savings of the community. External assistance became a crucial and key requirement for the implementation of the plans. It became a direct criterion in the pace of investment.

Third Five Yar Plan 1961-66

This plan represented the first phase of the long-term perspective planning aiming at not only rapid expansion of the economy but also to make it self-reliant and self-generating. It called for a total investment, public and private sectors, of Rs. 1o.4oo crores and the direct foreign exchange component was estimated at Rs. 2.o3o crores.[5] Exter-

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1. This was later raised to Rs. 1.9oo crores and finally to Rs. 2.ooo crores. See Third Five Year Plan, Planning Commission, New Delhi 1961, p. 1o8.
2. Ibid., p. 32
3. Ibid., p. 1o8.
4. Appraisal and Prospects, op. cit., p. 14.
5. Third Five Year Plan, op. cit., p. 59.

nal assistance requirement was estimated at Rs. 2.600 crores. But even during this plan period India faced certain difficulties as a result of abnormal conditions, which affected the economy seriously.

During the second year of the Third Plan, in 1962, India was attacked by China. Developmental plans were greatly upset and resources strained because the defence outlay had to be increased.[1] Consequently, the Plan had to be reformulated, making a fresh assessment of the foreign exchange needs. The foreign exchange component was estimated to be Rs. 130 crores higher than the original estimate. While the economy was still recovering from the shock of Chinese hostilities, India had to face Pakistani hostilities in 1965. India was forced to further strengthen her defences to face a probable Sino-Pakistani attack.

Yet another problem was the bad situation in agriculture. In 1963, the planners thought it reasonable to expect that, with favourable monsoons, there could well be a sizable increase in the total agricultural output during the remaining period of the Third Plan.[2] But this was not to be so. In 1965-66, the late monsoon failed in several parts of the country and adversely affected the production of foodgrains. The production was disastrously low at 72 million tons as compared to 89 million tons[3] in 1964-65. The need for foreign exchange increased further and the proclaimed goal of self-reliance receded into the background.

The quantum of external assistance utilised during the Third Plan amounted to Rs. 2.868 crores or about 27 per cent of the total plan investment.[4] Thus external assistance became cru-

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1. Planning Commission, Progress of the Third Five Year Plan, Delhi, July 1963, pp. 2 and 5. See also, Mid-Term Appraisal (1963), pp. 161-171.
2. Mid-Term Appraisal (1963), pp. 7-8
3. Government of India, Economic Survey 1971-72, Delhi 1972, Table 1:5.
4. For an analysis of India's external debt during the first three five year plans see Chandra Dalaya, External Debt of India, Bombay 1970.

cial for the implementation of the Third Plan.

The Annual Plans 1966-69

An underlying assumption during the Third Plan was that external assistance and deficit financing could be used as effective and readily available means of resource for rapid economic growth.[1] However, due to the problems encountered during the Plan and cessation in the flow of external assistance following the Indo-Pakistan conflict in 1965, the Third Plan was a failure.[2] Consequently, there was a change in the planning procedure. The Fourth Five Year Plan was shelved for the time being and instead annual planning was adopted.

During the three-year period a total investment of Rs. 9774 crores was made. External assistance contributed Rs. 2.371 crores to this[3], or about 24 per cent. Taking the entire period from 1951 to 1969, the total investment stood at Rs. 30.284 crores. External assistance utilised during this period amounted to Rs. 7.164 crores or 24 per cent of the total investment.

The Fourth Five Year Plan 1969-74

The Fourth Plan was launched in 1969 with an investment provision of Rs. 24.398 crores, the public sector share being Rs. 14.398 crores.[4] External assistance amounted to

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1. B. Mehta, Crisis of Indian Economy, New Delhi 1973, pp. 37-49
2. However, the overall economic performance over the three five year plans has been considered to be impressive by many observers. K.N. Raj, for instance, has stated: "The rate of economic growth that has been achieved in India since 1950-51 is 2 to 3 times as high as the rate recorded earlier during British administration. As a result, the percentage increase in national income in the last thirteen years has been higher than the percentage increase realized in India over the entire preceeding half a century".
   K.N. Raj, Indian Economic Growth: Performances and Prospects, New Delhi 1965, p. 2.
   See also Max Millikan, "India in transition: Economic Development, Performance and Prospects", Foreign Affairs, April 1968.
3. Economic Survey 1971-72, Table 7:1.
4. Fourth Five Year Plan-A Draft Outline, Delhi 1969, p. 47.

Rs. 689 crores in 1969-7o and Rs. 7o2 crores[1] in 197o-71. The amount of assistance from abroad needed for the whole period was estimated to be Rs. 2.514 crores, or about 11 per cent of the total investment.[2]

The Donors

The principal donors up to the end of the First plan were IBRD, the USA, Canada and Australia while Soviet Union joined the ranks on the eve of the Second Plan. The number of donors increased during the Second Plan, West Germany, the United Kingdom and Japan being the new donor countries. The number of donors increased to twenty during the Third Plan.

The following table gives a view of donorwise classification of external assistance.

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1. Economic Survey 1971-72, table 7:1
2. Fourth Five Year Plan, op. cit., p. 83.

Table I.

External Assistance by Source during 1951-69 and 1969-71 (in Rs. crores)+

Countries	First Plan		Second Plan		Third Plan		Annual Plans		Total (1951-1969)		1969/1971	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amt.	%	Amount	Per Cent
United States	135.6	69.5	784.0	54.8	1679.6	58.5	1524.4	52.4	4123.6	54.3	672.0	41
Canada	19.7	10.1	76.0	5.3	65.9	2.3	218.2	7.0	380.0	5.0	130.5	8
Australia	5.2	2.7	7.5	0.5	7.0	-	26.0	0.9	45.7	neg	5.0	neg
Norway	0.7	neg	1.8	neg	2.6	neg	1.7	neg	6.8	"	-	-
New Zealand	0.3	"	2.9	"	0.6	"	0.3	"	3.1	"	-	-
I.B.R.D.	33.8	17.4	222.8	15.8	123.4	4.3	66.6	2.2	447.0	6.0	73.8	4.4
W. Germany	-	-	120.5	8.4	221.6	7.7	192.9	6.2	535.0	7.0	125.1	7.6
United Kingdom	-	-	122.3	8.5	171.3	6.0	229.0	7.4	522.6	6.8	159.8	9.7
U.S.S.R.	-	-	76.0	5.3	211.0	11.3	138.6	4.5	425.6	5.6	86.2	5.2
Japan	-	-	16.4	1.1	88.3	3.3	120.3	3.9	225.0	3.0	81.8	4.9
France	-	-	-	-	20.9	0.9	54.4	1.7	75.3	1.0	negligible	
Czechoslovakia	-	-	-	-	13.0	neg	36.1	1.2	49.1	neg	9.5	neg
Italy	-	-	-	-	11.6	"	56.9	1.7	68.5	"	36.5	2.2
Poland	-	-	-	-	11.3	"	4.1	neg	15.4	"	7.0	neg
Yugoslavia	-	-	-	-	9.7	"	20.0	"	29.7	"	23.3	"
Netherlands	-	-	-	-	9.5	"	19.3	"	28.8	"	26.3	1.9
Switzerland	-	-	-	-	6.0	"	12.3	"	18.3	"	4.1	neg
Belgium	-	-	-	-	4.9	"	3.5	"	8.4	"	8.0	"
Austria	-	-	-	-	4.7	"	9.8	"	14.5	"	5.2	"
Denmark	-	-	-	-	0.6	"	7.2	"	7.8	"	3.4	"
I.D.A.	-	-	-	-	200.5	7.0	347.1	11.2	547.6	7.2	128.2	7.7
Sweden	-	-	-	-	-	-	7.2	neg	7.2	neg	4.9	neg

Sources: Report on Currency and Finance and Economic Surveys for various years.

NOTE: The figures refer to the amounts utilised. Figures for 1966 and after are in post-devaluation rupees.

+ one crore = 10 millions.

The dominant position of the United States as a donor is evident from the table. The assistance extended by the US during the three five year plans as well as the annual plans, was more than the combined assistance from all other sources. During the first two years of the Fourth Plan, however, the United States provided only about 41 per cent of the total assistance utilised. Over the entire period, namely 1951-1971, the United States provided more than 53 per cent of the total assistance utilised from all the sources.

The foregoing pages would indicate the growing importance of external assistance for India's planned economic development. Such a dependence on external assistance, in particular on assistance from one single country, the United States, pushes the aim of self-reliance further into the background.

The Indian government does not look upon external assistance as a permanent requirement of her development though she cannot do without it for the present. The ultimate aim of India is still to attain self-sufficiency and to be independent of assistance from abroad. This objective was first stated in the Third Plan and reiterated in the Fourth Plan. "The Policy objective is of reducing foreign aid net of debt servicing to half the current level by the end of the Fourth Plan and to eliminate it altogether as speedily as possible".[1] This objective, however, was not achieved at the end of the Fourth Plan due to a number of reasons such the Indo-Pakistan war in 1972 and the burden imposed upon the Indian economy by the Bangladesh refugees. Despite the burden on the economy due to temporary crises, any hope of reducing the dependence on external assistance in the present decade would depend, in the final reckoning, on a radical change in the heavy import oriented economic policy of India.

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1. Fourth Five Year Plan, op. cit., p. 88.

Terms of Assistance

A detailed discussion of the terms of American assistance will be made elsewhere. Only a brief comparative view of the overall situation is given below.

The following table gives a view of the rates of interest on loans and credits from some sources.

Table 2

Terms of Foreign Loans

	1961			1967		
Country	Percent Interest	Repay-ment period	Grace period	Percent Interest	Repay-ment period	Grace period
United States	0.75	40	10	1.0-2.5	40	10
Soviet Union	2.5	12	1	2.5	12	1
U. Kingdom	3.5	25	7	-	25	7
W.Germany	3.0-6.0	10-25	4-8	3.0-6.0	20-25	7
Japan	6.0	10-18	5	6.0	10-18	5

Source: The United Commercial Bank Review, Calcutta, October 1967 and External Assistance 1966-67, Government of India, 1967.

The loans extended by the United States had the lowest rates of interest and the longest repayment as well as grace periods. In the case of the Soviet Union, both the repayment period and grace periods were much shorter. However, Soviet credits were repayable in rupees utilised by the Soviet government for purchase of goods in India under Indo-Soviet agreements. The bulk of West German loans came under the interest range of 5 to 6 per cent. Japanese Yen credits became softer after 1967, and so was the case with German loans.

In late 1960s, several countries liberalised the terms of assistance with regard to the rate of interest, repayment and grace periods.[1] The following table shows the maturity

1. Reserve Bank of India, Report on Currency and Finance for the Year 1970-71, Bombay 1951, p. 59.

pattern of loans authorised during the Second and Third Five Year Plans. Maturity pattern denotes the period elapsing between the date of agreement and the date of completion of repayment.

Table 3

Maturity Pattern of Loans Authorised

Period of Maturity in years	Second Plan (in per cent)	Third Plan
o-6	6.o	-
7-1o	11.o	1o.o
11-14	33.o	6.o
15-19	25.o	14.o
2o-23	2o.o	16.o
24-25	1.o	12.o
over 25	4.o	42.o
Total	1oo.o	1oo.o

Source: Economic Survey 1964-65, Government of India, 1965, p. 41.

As shown in the table, only five per cent of the loans authorised during the Second Plan were for over 24 years' duration: such loans accounted for 54 per cent of all the authorised loans during the Third Plan. This marked increase in the maturity period of loans is mainly attributable to the fact that US AID loans are of 4o years' maturity and were free of interest until 1964.

Forms of assistance

Besides the quantum and terms of external assistance, the conditions attached to and the types of assistance are of importance in evaluating its impact on the economy. Most of the donor nations have followed the practice of tying up assistance to projects and/or to imports of goods and services only from the designated source.[1)]

1. Bhagwati speaks of two very subtle forms af tying. One method is where the aid flow is treated as part of overall trade arrangements, as is done by the socialist countries. The other form, practiced by France, is to couple the flow

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The practice of source tying was begun by such countries as the United States and the United Kingdom. The main reason for this was the desire to avoid the balance of payments difficulties.[1] There have been several other reasons for tying by source and/or project: the pressure of domestic industrial and business interests, the desire to be associated with clearly identifiable projects with great political impact and commanding prestige in the recipient countries,[2] the preference of the domestic manufacturers for business objectives such as gaining facilities of charging higher prices of the product, and the advantage of demonstration of association with foreign concerns and the possibility of standing in international competition with greater strength.[3]

Even countries not facing balance of payments difficulties have insisted on tying assistance, on the grounds that this form of assistance would provide them with the opportunity

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of assistance with provisions under which the assistance is to be spent on French goods and services while France 'reciprocally' purchases from her former colonies on a preferential basis. See J. Bhagwati, "The Tying of Aid" in Bhagwati & Eckhaus (eds), Foreign Aid, London 197o. See also John White, The Politics of Foreign Aid, London 1974, pp. 156-165.

1. J. Bhagwati, "The Tying of Aid", in Bhagwati & Eckhaus, op. cit., p. 243-246. See also Hans Singer, The Strategy of International Development, edited by Alec Cairn Cross and M. Puri, London 1975, pp. 121-13o.

   According to Pincus, the validity of the balance of payments justification for tied aid depends upon the extent to which the recipient countries are willing or able to switch their import expenditures as a result of tied aid. The most important motive is, according to him, the donor's desire to penetrate the recipient's market, in order to create long-run trade ties. See John Pincus, Trade, Aid and Development, New York 1967, p. 311.

2. J. Bhagwati and P. Desai (197o), op. cit., p. 2o5

   The desire to be associated with prestigious projects is evident in the case of West Germany which is not a deficit country. See John White, German Aid, London 1965, pp. 114 and also White (1974), op. cit., p. 163.

3. See John White (1965), op. cit., pp. 111-118.

of examining the feasibility of the project as well as the repayment capacity of the recipient country.[1)]

As regards foreign assistance to India the percentage of tied aid to the total received was about 53 per cent during the First Plan and nearly 8o per cent during the Second Plan.[2)] The practice of source-tying, in particular by the United States, did not decrease during the Third Plan.[3)]

The share of non-project assistance in the total assistance increased continuously since the final years of the Third Plan. The following table shows the percentage share of non-project assistance in the total assistance.

Table 4

Share of nonproject assistance in total assistance by Source

Countries	up to March 1966	1966-69	197o-71
United States	46	81	9o
W. Germany	45	86	8o
United Kingdom	6o	93	8o
Japan	38	1oo	8o
France	18	52	6o

Source: Government of India, The Estimates Committee Report on the Utilisation of External Assistance, August 1967 and Economic Survey 197o-71.

1. J.H. Adhvarvu, "Foreign Aid: Its Nature and Quantum" in Foreign Aid: A Symposium, Indian Council of Current Affairs, Calcutta 1968, p. 4o3. See also UNCTAD, Report Part I, July 1966, p. 12o. Predominance of project-tied assistance leaves little room for flexibility in the use of assistance. The influence can be exercised in a number of ways: by insisting on higher standard of project preperation, by introducing technical aid as a part of a project, by imposing various conditions on the execution of the project, or in the extreme case, by the partial supervision of the project itself. See A. Carlin, "Project vs. Programme Aid: From the Donors' Viewpoint" in The Economic Journal, Vo. 77, March 1967. See also Arnold Hargberger, "Issues Concerning Capital Assistance to Less-developed Countries", in Economic Development and Cultural Change, Vol. 2o, July 1972, pp. 631-64o.
2. V.K.R.V. Rao and D. Narain, Foreign Aid and India's Economic Development, New Delhi 1965, p. 9.
3. J. Bhagwati and P. Desai, op. cit., p. 2ol.

The share of non-project assistance in total loans authorised from all sources was 19.3 per cent during the Second Plan and about 41 per cent during the Third Plan.[1)]

The practice of tying of assistance has been responsible for cost escalation of developmental projects.[2)] An ECAFE study has brought out the monopolistic implications of tied credits. The study pointed out that: "In developed sountries the laws against restrictive practices stop at the national frontier. They exempt practices affecting exports as well as the operations of great international cartels in shipping and oil which have highly questionable effects on the developing economies of Asia". Therefore, "..purchasing power of aid tends to be lower than that of free foreign exchange".[3)]

While there is no study in quantitative terms to ascertain the cost implications of tied assistance extended to India by various countries, a detailed study of the effect of tying in Pakistan was published in 1967.[4)] The study concluded that in 2o projects analysed the weighted average price was 51 per cent higher than in conditions of open bidding. As a consequence of the practice of tying, the average price of all goods bought by Pakistan was raised by about 12 per cent.[5)] While there is no generally agreed figure for cost

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1. J. Bhagwati and P. Desai (197o), op. cit., p. 2o6
2. For cost escalation aspects of tied credits see Mahbub El Haq, "Tied-credits- A Quantitative analysis" in J.H. Adler and P.W. Kuznets (eds), Capital Movement and Economic Development, NY 1967. See also J. Bhagwati, "The Tying of Aid" in Bhagwati and Eckhaus, op. cit; Little and Clifford, International Aid, Chicago 1966, pp. 188-191 and W.G. Friedman et al, International Financial Aid, New York 1966, p. 42o.
3. Economic Commission for Asia and Far East, Economic Survey of Asia and the Far East, 1966, p. 73.
   See also Bimal Jalan, "Gains to Donor Countries From Tied Aid", Finance and Development, International Monetary Fund, September 1969 and Harry Johnson, The World Economy at Crossroads, London 1965, pp. 81-82.
4. Mahbud El Haq, op. cit.
5. Ibid., pp. 327 and 331. Brecher and Abbas have shown that for instance, major items of iron and steel, representing a large part of non-agricultural commodity assistance to Pakistan, have been overvalued by amounts ranging from 41 to 111 per cent. See Brecher and Abbas, Foreign Aid and Industrial Development in Pakistan, Cambridge 1972, pp. 28-29.

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escalation, it is widely assumed that the effect of tying raised the average price of all aid-financed goods and services by between 2o to 25 per cent.[1] This conclusion may be applicable to development projects in India as well[2].

Non-project assistance is, however, also fraught with disadvantages. While assistance may not be bound to a specific project, it is generally tied to the currency of the donor country or it is given as a supplier's or export credit.[3] Such an arrangement can also lessen the manoeuverability in using the funds, escalates the cost of the project and decreases the rate of utilisation. Non-project assistance can

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Harry Johnson has estimated that the dollar value of all American assistance to all developing countries over states its worth by about 15 per cent owing to the fact that commodity assistance under P.L. 48o, which constitutes one-third of such assistance, is valued at the US domestic market prices which is much higher than world market prices.
Harry Johnson, Economic Policies Toward Less Developed Countries, New York 1967, Table 8 on p. 16o.

1. John White (1974), op. cit., p. 161.
An important indirect consequence of aid-tying is what has been called as the distortion of priorities (See Chenery's comments on Haq's paper., Haq, op.cit., p. 358). Since tying is a consequence of the desire of the developed countries to protect their exports, availability of assistance depends upon what items the donor countries want to export rather than what the developing country needs to import. The availability of assistance may persuade developing countries to undertake or more quickly implement less important projects. The 'small car' project in India during the Third Plan is an example. This project, despite India's foreign exchange difficulties for more essential projects, claimed a good deal of attention because external assistance (particularly from France and Japan) was to be made available for it.
See R.M. Honavar "Tied Aid and Industrial Growth", in The Indian Economic Journal, Vol. XVIII, No. 1, July 197o, pp. 47-59.
See also Gerald Meier, "Improving the Quality of Aid-Note", in Leading Ussues in Economic Development, OUP 197o, p. 285-86.

2. For examples see the report of Public Undertakings Panel of the Parliament, referred to in The Economic Times, Bombay April 23, 1966. See also D.Lal, "The Cost of Aid-Tying: A Study of India's Chemical Industry", UNCTAD Secretariat, New York 1968.

3. For a study of the role of supplier's credit in industrialisation see, Leslie E. Grayson, "The Role of Supplier's

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also in many ways provide "more effective leverage to the aid-giver since it is eagerly sought by many developing countries (India is a case point) and the release from project-tying would often be accepted as an aspect of softness".[1)]

To sum up, it can be said that tied assistance reduces the freedom of the recipients for purchasing investment goods from the cheapest market. It may also be harmful by causing delay in the execution of projects and by distorting the priorities of a development programme, since imports of a lower priority may have to be accepted because they can be readily supplied by the donor country. Tying may cause disruption and expense through the changeover to a less economic source of supply.[2)] Since assistance is generally extended in terms of financial resources, its resource content would depend upon its capacity to purchase real resources from abroad. Herein lies the significant difference between tied and untied credits.

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1 Credit in the Industrialisation of Ghana", in Economic Development and Cultural Change, Vol. 21, No. 3, April 1973.

1. Hans Singer, op. cit., p. 126
Non-project assistance, apart from commodity assistance, falls into two categories: a) that which is given as general balance of payments support, including financing the repayment of earlier debt; and b) that which is given for imports of raw materials, components, and spares. See J. Bhagwati and P. Desai, op. cit., p. 2o5.

2. OECD, Development Assistance Efforts and Policies' Review, 1967, p. 91.

Chapter V

Quantum and Categories of American Assistance

The United States assistance programmes in India started in December 195o with the signing of the Point-Four Technical Assistance Agreement between the two governments.[1] The first substantial flow of American assistance to India occurred in 1951, when large quantities of wheat and rice were shipped[2] to help alleviate the acute shortage of food resulting from the failure of the monsoons during the previous year. This shipment was originally a grant but was later converted into a loan, the Wheat Loan of 1951, totalling about Rs. 9o crores (at 2 1/2 per cent interest and repayable in rupees).

A regular flow of assistance from the US did not, however, start until the signing of Indo-US Technical Cooperation Agreement[3] in January 1952. Initially the entire assistance was in the form of grants and involved only technical assistance. However, gradually the sope of the programme was extended to include a) development loans and grants to facilitate import of capital goods and equipment, b) special assistance grants to Malaria Eradication Programme and, c) loans from the Asian Development Fund for the development of iron ore mines in Orissa.

The P.L. 48o programme, which shall be studied in a seperate chapter, began in 1956. This was followed by the establishment of Development Loan Fund (DLF) in 1957 and the Agency for International Development (AID) in 1961 to provide long-

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1. For a full text of the Point-Four concept see Department of State Bullein, Superintendent of Documents, US Government Printing Office, Washington D.C., Vol. 2o, No. 5oo, January 3o, 1949.
2. For discussions in the US congress that preceeded the extension of the loan see, US Congressional Record, 82nd Congress, First Session, Vol. 97, part 2,(5th March 1957)
3. The development of this programme was strongly influenced by Chester Bowles and John Sherman Cooper. For a full statement of the programme see, The Indo-US Technical Cooperation Programme Report, 1963, Ministry of Finance, Department of Economic Affairs, Government of India, New Delhi, December 1963.

term credits. Besides these organisations, the Export-Import Bank has also extended loans to India since 1957. At the end of March 1971 the total American assistance authorised amounted to Rs. 5.012 crores.

Table 5

Types and Sources of Assistance 1951-1971

	Amount in Rs. crores	Percentage
1. Grants		
a. Aid missions	190.0	
b. PL 480 Title II	458.6	13.0
	648.6	
2. Loans repayable in dollars		
a. Wheat Loan	90.3	
b. Ex-Im Bank	278.1	
c. U.S. banks and Boeing Co.	74.5	44.5
d. AID	1553.1	
e. P.L. 480	234.2	
	2230.2	
3. Loans repayable in Rs.		
a. T.C.A.	42.2	
b. Asian Development Fund	8.7	
c. DLF/AID	246.5	
	297.4	42.5
4. Other assistance		
a. PL 480 PL 665	1833.4	
b. Third Country Currency	2.8	
	1836.2	
Grand Total	5012.4	100.0

Source: RBI-Report on Currency and Finance for 1970-71, Statement 101.

As can be seen from the table only 13 per cent of the authorised assistance was in grants. However, about 42 per cent of the total assistance was repayable in rupees. A part of the loans repayable in rupees, under (3) in the table, were affec-

ted by changes in official rates of exchange, while the remaining part, under (4) in the table, was not affected by such changes.

In the following pages we shall briefly review the functioning of the principal agencies and programmes through which American assistance has flown into India since 1951.

The Wheat Loan of 1951 was provided not for developmental purposes but to offset the damage caused to food supplies by drought in some parts of the country and floods in others. The Indian government requested for this loan on special terms. The US government initially took a humanitarian attitude and recommended that supplies be made available on a grant basis. However, as mentioned in an earlier chapter, the shipments were preceded by bitter and lengthy debates in the US Congress because of India's foreign policies, in particular her recognition of Communist China and her mediatory role in the Korean War. Consequently, when the India Emergency Food Act 1951 was[1)] finally passed, the terms were not as easy and generous as India had hoped and requested for. The interest rate was 2 1/2 per cent and the repayment of principal was scheduled over a thirty-year period in semi-annual instalments beginning from June 1957. However, in view of the India foreign exchange crisis in 1957-58 the payments due in 1957-68 were deferred and rescheduled for 1980-1995. Other payments due in 1968-70 were deferred to 1978-80.

It should be noted here that in the course of the Congressional debates preceeding the wheat and rice shipments, it was made clear that the US government expected India to facilitate the flow from India to the US of certain strategic materials which had real significance for military purposes[2)]. It was also stated that the rupee proceeds of the wheat sales would be transferred to a special development

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1. Indian Emergency Food Act of 1951, in Department of State Bullein, Vol. 35, No. 627 (2 July 1951).
2. Of particular interest to the US was Monazite sand containing thorium- vital to America's atomic energy programme.

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fund and "the moneys were made available mainly for grant of short and medium-term loans to State Governments and partly also for financing development schemes of the Central Government"[1].

Despite the bitter debates which preceded the Wheat Loan and 'quid pro quo' approach of the United States, the Indian government retained its development assistance approach for three reasons. Firstly, the additional supplies of wheat were considered counter-inflationary and "formed the basis on which we could advance towards a safe and gradual shedding of controls and rationing of foodgrains".[2] Secondly, the sales proceeds were to be utilised for financing development schemes in India and, lastly, the first five million dollars of interest on the loan were to constitute a US administered special fund to assist higher education in India.

Technical Cooperation Programme

With the establishment of the Technical Cooperation Mission in 1952, the US assistance to India entered a new phase. Up to 1956 all American assistance was administered under TCM. As stated elsewhere the overall objective of the TCM was to "aid people of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills". The purpose of the TCM projects in India was to help her develop the human respurces with necessary Knowledge and training, thereby to increase productivity and reduce bottlenecks resulting form lack of technical knowledge,

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This sand is found in great abundance in India. The only other known source of supply was Brazil which had only relatively small deposits.
See P.J. Elridge, The Politics of Foreign Aid in India, London 1969, p. 3o.

1. Indo-US Technical Cooperation Programme, Prior Report October 1956, p. 24.

2. C.D. Desmukh, Economic Development in India 1945-56, Bombay 1957, p. 3o

shortage of skills, and lack of organizational experience.[1] Further, assistance was to be provided for importing goods and equipment for agricultural development and also for various other projects such as eradication of malaria and smallpox, community development. In general the foreign exchange component of the projects were provided by the US government and the rupee expenditure by the Indian government.

Under the TCM the US made available experts in various disciplines to help solve specific technical and economic problems in India. The number of such experts who served in India during 1952-1971 were approximately 2.850. Besides the TCM also provided facilities for advanced training and studies of Indians in the United States and other developed countries. Total number of Indians who underwent such training and studies during 1952-71 were about 6.100. Thus, the TCM could provide for only a small part of India's need for experts and trained personnel. In view of this, towards the end of the 1960s emphasis was laid on training Indians in India by founding new or upgrading established educational and training institutions to help alleviate the shortages of trained manpower.

During 1955-57 large quantities of wheat and cotton were imported from the United States under PL 665 as a kind of core programme of the development assistance under the Technical Cooperation Programme. As in the case of the Wheat Loan of 1951, the cost of these commodities were paid in rupees which were deposited in a special US Government Account. This Account was subsequently made available as loans and grants for development assistance. Out of a total of Rs. 31.9 crores in this Account, about 19.7 crores were provided as loans and about Rs. 1 crores as grants for the Rihand Valley Project. The remaining amount was to be used by the United States Aid Mission to India to meet the cost of international travel of participants and technicians and other expenditures.

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1. See Neelambar Hatti, "External Assistance to India from Western Governments during 1951-61" in Economy and History, Vol. XVI 1973, p. 56.

The development assistance provided until June 1954 was in the form of grants. Subsequently, after the alteration in The Mutual Security Act requiring not less than 3o per cent of assistance to be in the form of loans, a part of the development assistance came to be provided as loans. TCM extended loans totalling $ 13o millions during 1951-57. These loa were partly in foreign exchange and partly in rupees out of the sales proceeds of the commodities imported under P.L. 665.

The development assistance loans under TCM carried an interest rate of 4 per cent and the period of maturity was 36 years, 4 years being the grace period.[1)]

In addition, India received assistance from Asian Economic Development Fund to the tune of $18.9 millions or about Rs. 9.5 crores in 1958. This was a part of the general American response to the foreign exchange crisis in India at that time. The Orissa Iron Ore Project, for which the loan was extended, was a regional project "to assist the Government of India in developing iron ore mines and opening up of an area not well served with communication and improving port and harbour facilities at Vishakapatnam ...".[2)]

Development Loan Fund

The establishment of Development Loan Fund was a part of the US reaction to the build-up of Soviet and other East European assistance to the developing countries, the appeal of rapid economic development on the Chinese model, and "the concretization of measures of aggregate' resource gap" facing the less-developed world ..."[3)] The main purpose of DLF was to channel the bulk of American assistance to developing countries via specific project loans.

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1. Government of India, Ministry of Finance, External Assistance 1965-66.
2. Government of India, Ministry of Finance, Annual Report 1958-59, New Delhi 1959, p. 44.
3. For details about DLF see, Clive S. Gray, Resource Flows to Less-Developed Countries, New York 1969, pp. 66-71.

As stated earlier, this Fund was established in 1957 and provided loans on softer terms than the Ex-Import Bank. DLF extended three types of loans: Loans to the Indian government for public sector uses, loans to the Government for private sector uses and loans directly given to the private sector.

DLF loans extended during 1957-1961 (when DLF was absorbed by US AID) totalled Rs. 37o crores[1)] of which about Rs. 15 crores were not classified. Of the remaining 355 crores, about 6o per cent went to the public sector and 4o per cent to the private sector.

The DLF loans were softer than those extended by EXIM Bank but carried a higher rate of interest than the development assistance loans under Technical Cooperation Programme. The DLF interest rates varied from 3.5 per cent for loans meant for infrastructure projects about 55 per cent of the total loans and 5.5 to 5.75 per cent for loans towards industrial development and non-infrastructural imports. [2)] The repayment period was spread over 5 to 2o years with a grace period of six to nine months. To begin with the DLF loans were project or programme tied but not procurement-tied to the US. But after October 1959, the loans became tied to the country of procurement.

Agency for International Development

Local currency-repayable project and program loans under DLF were shifted to dollar-repayable loans under Agency for International Development which was established in 1961. US AID was constituted under the United States Foreign Assistance Act of 1961 and absorbed all activities previously administered by T.C.M., D.L.F., and the Public Law 48o programme. US AID brought a concept of softness in the US external assistance programme. As mentioned above, the dollar loans exten-

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1. Government of India, Ministry of Finance, External Assistance 1961, and RBI- Report on Currency and Finance for the Year 1963-64 , Bombay 1964, Statements 84 and 85.
2. External Assistance 1961, New Delhi 1962.

ded after 1961 were repayable in dollars. In most cases the repayment of loans was scheduled over 4o years including a grace period of ten years.[1)]

Table 6

Dollar Loans authorised by US AID 1961-71

Loans authorised	No. of loans	Amount	% of total	Rate of interest: First 1o years	Rate of interest: Remaining 3o years	Rate of interest: total in Rs.
1. Before Dec.'63	21	738.6	29.6	o.75	o.75	549.3
2. Dec.'63-Oct.'64	4	31o.7	12.4	o.75	2.o	231.4
3. Oct.'64-Dec.'67	18	824.o	33.o	1.o	2.5	613.55
4. Dec.'67-March 71	6	624.o	25.o	2.o	3.o	468.2
	49	2497.3	1oo.o			1862.45

Source: Government of India, Ministry of Finance, External Assistance 1965-66 and Report on Currency and Finance for different years, and Fact Sheet 23, New Delhi: USIS, 1971.

While the interest rates were relatively low, the negative aspect of AID assistance has been that the repayment of princi-

1. The Foreign Assistance Act of 1961 gave the administration considerable flexibility as regards the loan terms, merely stating that development loans were repayable "as to principal and interest in United States dollars on such terms as the President may determine". In 1962 AID began using the so-called two-step procedure for lending. Firstly, most developing countries would receive their development loans at o.75 per cent interest, with a 1o-year grace period for principal repayment and 4o year final maturity. Secondly, the few countries nearing self-sustaining growth or enjoying favourable balance of payments position because of a strong sector, would pay o.75, 3.5 or 5.75 per cent with grace periods not exceeding 5 years and final maturities, including grace periods, of 15 to 2o years. The United States Congress, however, did not approve the o.75 per cent interest rate applied over 4o-year grace period in the case of most developing countries. So, in January 1964, the Congress fixed a minimum rate of 2 per cent after the 1o-year grace period. Later in the same year, it set minimum rates of 1 per cent during the grace period and 2.5 per cent thereafter. For details on AID see, Clive S. Gray, (1969), op. cit., pp. 9o-93.

pal and interest is in dollars and that the loans were procurement-tied.

It should be added that some of the AID loans were extended to private and non-official bodies on the basis of a "special loan repayment" procedure. The recipients of loans were to pay the principal and interest in rupees to the Indian government within a stipulated period ranging from 9 to 18 years. The Indian government would then be responsible for the payment of principal and other fees in dollars on its own repayment schedule. The private loan recipients were also to pay in rupees a special charge ranging from 2.75 per cent to 5 per cent annually.

Export-Import Bank

Another source of American foreign assistance was the Ex-Im Bank. This Bank was established in 1934 to facilitate and assist the United States foreign trade. The Bank's loans were to be used for the purchase of capital equipment and related services in the United States. The Ex-Im Bank loans are repayable in dollars with an interest rate between 5.25 to 6 per cent annually.[1] The loans have a repayment period of 15 years with a grace period af 3 to 5 years.

The loans extended by the Bank during 1957-71 totalled Rs. 352.6 crores (including loan to Air India).[2]

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1. In addition to dollar loans made under the provision of the Export-Import Bank Act of 1945, the Bank was empowered by the 'Cooley Amendment' of 1957 to Section (e) of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 48o) to extend loans in local currencies of the recipient countries.

2. RBI- Report on Currency and Fiance for the Year 197o-71; Bombay 1971, Statement 1o1.

Utilisation of American assistance

The following table shows the rate of utilisation of American assistance to India during 1951-66.

Table 7

Utilisation of American Assistance 1951-66

(in Rs. crores)

Category	First Plan			Second Plan			Third Plan		
	Authorised	Utilised	%	Authorised	Utilised	%	Authorised	Utilised	%
1. Wheat Loan	90.3	90.3	100	-					
2. Loans repayable in rupees	15.0	2.3	15.7	242.5	116.80	48	174.2	155.8	90
3. Loans repayable in dollars	-	-	-	108.5	36.85	32	861.0	639.5	74
4. Grants	91.8	44.3	48.0	103.0	85.60	83	168.1	161.0	96
5. Commodity assistance	17.0	5.0	30.0	1142.5	544.80	48	1598.3	1403.2	88
Total	214.1	141.9	66.4	1596.5	784.05	49	2801.6	2359.5	84

Sources: Government of India, Economic Surveys for different years and RBI-Report on Currency and Finance for the Year 1970-71.

Note: Assistance authorised for Second and Third Plans include undisbursed assistance from the previous plans.

During 1966-71, the authorised loans, repayable in dollars including undisbursed sums from the Third Plan, totalled about Rs. 1.523 crores of which about Rs. 1.344 crores was utilised, i.e., approximately 88 per cent.[1] Grants were rather small during this period, amounting to Rs. 28.5 crores of which about 6 crores were utilised. Loans repayable in rupees totalled about Rs. 87o crores of which approximately 865 crores or nearly loo per cent were utilised during 1966-71. The rate of utilisation over the whole period for total assistance was about 88 per cent.

As is evident from Table the rate of utilisation during the First Plan was about 66 per cent. If the Wheat Loan is excluded the utilisation rate is much lower. The overall rate of utilisation during the Second Plan is only about 49 per cent although the pattern of rate of utilisation is somewhat similar to that of the First Plan.

There are several reasons for the lower rate of utilisation during the Second Plan. The Second Plan called for a large-scale emphasis on the industrial sector needing a substantial increase in imports. This meant a very large increase in the inflow of external assistance, both capital and technical, involving considerable delays in the flow of assistance due to organizational difficulties.[2] The lower rate of utilisation may also have been due to the widespread project-orientation nature of the assistance overall administrative inefficiency in the implementation of various projects and, lastly, a variety of institutional obstacles. Perhaps the mains reasons for the low rates of utilisation during both the First and Second Plans were the tying of American assistance[3] and the lack of effective coordination between various agencies extending assistance.

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1. RBI-Report on Currency and Finance for the Year 197o-71, Statement lol.

2. Neelambar Hatti, "External Assistance to India from Western Governments 1951-61", Economy and History, Vol. XVI, 1973, p. 8o.

3. Procurement-tying created problems for India and influenced the rate of utilisation during the final years of the Second Plan. For instance, the quotations for locomotives

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During the Third Plan, however, the utilisation rates, both overall and in all categories of assistance, were very high as compared to the previous plans. The primary reason for this improvement is probably the fact that the share of non-project assistance in the total US assistance was much higher than previously. Another important factor contributing to higher rate of utilisation not only during the Third Plan but also subsequently was the fact that all the American assistance programmes were now being administered by a single agency, namely, US AID.

Utilisation was further facilitated by the elimination of the differences in specifications as well as the larger share of commodity assistance in the total flow. Lastly, the fact that Indian foreign exchange reserves were low left very little choice but to expedite drawings of external assistance so that developmental efforts could continue.

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varied from a low price of 3 lakhs in Japan to a very high 9 lakhs from the US.

While this may be an extreme case of relative prices, it does indicate the relatively higher prices of American capital goods, which may have influenced negatively the rates of utilisation.

See, Government of India, Ministry of Railways, Estimates Committee (1959-60), 74th Report, New Delhi 1960.

Chapter VI

American Assistance and Different Sectors

A. Industries

India considers rapid industrialisation as a major solution for her problems. The Plans have stressed this approach in very clear terms. For instance, the Third Five Year Plan stated that "the development of basic industries such as steel, fuel, power and machinebuilding and chemical industries is fundamental to rapid economic growth".[1] In order to achieve rapid industrialisation, however, a country must possess the necessary prerequisites raw materials, know-how, capital, and human resources and an expanding market. India has considerable explored and unexplored natural resources[2] which could make a considerable contribution to her national income. The major obstacles on the path towards industrialisation are shortage of capital, technical knowhow. External assistance to facilitate the removal of these obstacles, and pave way for rapid growth. American assistance to Indian industrialisation began with signing of the Indo-American Technical Cooperation Agreement in early 1952, but continuous and systematic assistance was not extended until after the establishment of D.L.F. The programme of technical cooperation aimed essentially at providing American techniques, men and materials for th economic development of another country.[3] In India the basic aim was to help raise the living standards of the people.

India's efforts to develop her industrial sector and diversify industrial structure was given considerable assistance by the United States during the period under study. The

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1. The Third Five Year Plan, Planning Commission, New Delhi 1961, p. 5o. See also Draft Outline of the Second Five Year Plan (1956), p. 7.
2. See Towards a Self-relian Economy - India's Third Plan, 1961-66, New Delhi 1962, pp. 9-1o.
3. Indo-American Technical Cooperation: 1952-1956, New Delhi, USIS, 1957, p.5

assistance extended to India consisted of foreign exchange assistance valued at $1910.8 million and rupee assistance of 237 crores to modernize and expand her industries.

Table 8

American Assistance to Indian Industries 1951-71

Industries	Amount $ million	Amount Rs. crores
1. Non-project assistance including airline credit from EXIM Bank	1.388,7[x]	
2. Steel	83,9	
3. Mineral Resources	23,8	
4. Other industrial projects	380,7[xx]	47.00
5. Industrial Finance Corporation, etc.	32,8	190.00
6. US Consulting Service	0,9	
Total	1.910,8	237.00

Source: Fact Sheet 23: United States Economic Assistance to India, New Delhi, USIS, 1971.

Notes: [x] Non-project assistance excludes about 975 million dollars used for the import of fertilisers.

[xx] Does not include power, irrigation and transport

The First Plan invested Rs. 270 crores in industries. Investments in organised industries and minerals during the Second and the Third Plans were Rs. 1.545 crores and Rs. 2.570 crores respectively. During the three Annual Plans 1966-69, the investment in this sector totalled Rs. 2.100 crores. Thus, a total of Rs. 6.485 crores (Rs. 3.960 crores in the public sector and the rest in private sector) was invested in industrial sector during 1951-69. In the first two years of the Fourth Plan, Rs. 665 crores were invested in the public sector industry.[1)] During 1951-71 the US assistance to the development of industries and minerals amounted to Rs. 133,6 crores.[2)]

1. Yojana, Annual Number 1972 (Indian Industry), Planning Commission, p. 89 and The Fourth Plan Mid-Term Appraisal, New Delhi 1971, p. 153. Figures relating to private investment are not available and, as remarked in the Mid-term Appraisal, they were much below the envisaged level. Thus its exclusion does not affect the analysis materially.

2. Of the total dollar assistance to industries and minerals,

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The total investment during this period amounted to Rs. 7.15o crores and the US assistance contributed about 19 per cent of this.

Non-Project Assistance

The United States has extended a substantial part of assistance as non-project loans. These loans are not tied to specific projects or programmes of development.

When India embarked upon the path of economic development in the beginning of the 195os, she required foreign assistance to build such projects as steel mills, power stations, chemical factories and machine tool plants. But over the years successful efforts have been made to create a wide industrial base with an extensive range of production. India now produces a variety of industrial goods as well as consumer goods and intermediate products. She still has, however, to bear the burden of maintenance imports due to lack of synchronized growth in some sectors. Thus, some components and spares for industrial equipment as well as certain important raw materials have to be imported and American non-project, assistance has facilitated the import af many essential items and raw materials.

It may be noted that foreign exchange available as non-project loans is allotted by the Indian government to many private as well as government undertakings. Non-project assistance also covers fertilisers and other requirements of agriculture, health education and other sectors. This type of assistance has facilitated the adjustments needed in many industries to meet unforseen requirements.

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1. $ 684 million was extended after the devaluation of rupee in 1966. While calculating rupee equivalent, the dollar assistance before devaluation has been converted at the pre-devaluation rate. The amount also included Rs. 237 crores rupee assistance from P.L. 48o funds.

It is essential to obtain quickly the required spare parts so that the industrial capacity can be fully utilised. Non-availability or delay in getting the essential spare parts can either curtail or stop production completely. Non-project imports can thus have a multiplier effect. It has been calculated that every dollar of raw material or component furnished by American non-project assistance enables Indian industries to turn out an additional two and a half dollars' worth of production.[1] Besides contributing to an improvement of the utilisation of industrial capacity[2], non-project assistance imports may have helped in reducing the costs, which in turn would help make Indian goods more competitive in foreign market. In addition, many requirements of small-scale industries have also been met by this type of assistance.[3]

Steel

One of the major obstacles for rapid industrilisation in India was the shortage of steel. Although the production of finished steel increased from about one million ton in 1950/51 to 4.7 million tons in 1968/69,[4] the industry failed to meet the targets fixed for the Third Plan, namely 6.8 million tons, even three years after the completion of the Plan.

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1. Fact Sheet 20: United States Economic Assistance to India New Delhi: USIS, July 1969, p. 15.

   For some examples regarding the 'multiplier' effect generated by the American non-project loans see, C. Tyler Wood, "US AID Helps India's Resurgence", in The Hindu: Survey of Indian Industry, Madras 1963, p. 29

2. See R.M. Honavar, "Tied Aid and Industrial Growth", in The Indian Economic Journal, Vol. XVIII, July-Sept. 1970, p. 54.

3. The small industries sector, including the village industries, had been accorded an important role in Indian economy. For instance, some 900,000 new jobs were expected to be created over the Third Plan in this sector. This sector was also expected to meet a very large share of the increased demand for consumer-goods and simple producer goods. See, Towards a Self-Reliant Economy - India's Third Plan (1961), p. 242 and Fourth Five Year Plan-A Draft Outline (1966), pp. 238-48.

4. Economic Survey 1971-72, New Delhi 1972, p. 92.

The US assistance programmes helped to a notable extent to meet the requirements of steel, particularly during 1958-61. The following table shows the distribution of assistance for import of steel between public and private sectors.

Table 9

American Assistance for import of Steel

Sector	Amount (in Rs.crores)
Public Sector (First Loan)	13.3
Private Sector	16.3
Public and Private Sectors	
Second Loan	14.63
Third Loan	18.75
Total	62.98

Source: Fact Sheet 21, United States Economic Assistance to India, New Delhi, USIS, February 197o.

All these loans were repayable in rupees and were extended during 1958-61 when India was facing a severe foreign exchange crisis.

Mineral resources

The total assistance extended to this sector during 1951-197o amounted to about $ 23.8 millions. A large part of this, $ 2o millions, was loan which India received in 1958 from the Asian Development Bank for the purchase of goods and services in connection with the rail and port development aspect of the so-called Orissa Iron Ore Project. The aim was to assist in developing the productive capacity of the Kiriburu Iron Ore mines to facilitate annual export of some 2 million tons of iron to Japan and thus help India

Another important project which received assistance was the so-called"Operation Harrock" and the assistance amounted to $ 3.5 millions (in 1966). This project provided for a survey to locate deposits of non-ferrous metal such as copper, lead and zinc. 'Operation Softrock' was still another project which was given a loan of o.25 million dollars in 1968. This project aimed at exploring deposits of phosphate which is an

essential ingredient of several types of chemical fertilisers[1].

The United States has also provided assistance since 1951 for the exploration of lignite. The production of lignite was expected to reach some 6 million tons by the end of the Fourth Plan[2] (1969-74).

In addition to the assistance extended to various projects mentioned above, the US also provided assistance earmarked for specific projects. Some of the projects such as the fertiliser projects have been accounted for elsewhere.

Small Industries

As mentioned earlier, the small industries have been given an important role to play in the economic development of India. The First Plan recognised that village industries had a central place in rural development. The employment potential of these industries was recognised as well.[3] Some Rs. 43 crores were spent for the development of the small industries sector in the First Plan. The Second Plan aimed at developing this sector as a source of creating immediate and permanent employment on a large-scale at a comparatively small capital cost.[4] Rs. 180 crores were spent for the improvement of this sector. This sector was considered as a major source of employment during the Third and Fourth Plans as well. Rs. 220 crores were spent in this sector during the Third Plan and Rs. 370 crores were earmarked for this sector in the Fourth Plan (1966-71).[5]

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1. In addition, the Oil and Natural Gas Commission was given a grant of $ 55,000 to cover administrative costs of the Commission and the participation of American experts.
2. Fourth Five Year Plan-A Draft Outline, New Delhi 1969, p. 249.
   Lignite is used for thermal power generation, fertiliser production as well as the production of carbonised briquttes.
3. The First Five Year Plan, New Delhi 1952, pp. 312-329.
4. The Second Five Year Plan, New Delhi 1957, pp. 167-68
5. The Fourth Five Year Plan (1966), op.cit., pp. 238-248

The US assistance has been extended to this sector also. For instance, America provided machinery and equipment for the Okhla Industrial Estate. Expert assistance was also given for planning and constructing the pilot production and development centre at this Estate. National Small Industries Corporation received a credit of $ 8.5 million (Rs. 6.4 crores) in 1961.

One of the significant by-products of the various multipurpose river valley projects,[1] which received considerable American assistance in heavy equipment and technical know-how, is the programme of rural electrification. This has indirectly contributed to the development of small and cottage industries. In addition, rural electrification programme has been directly assisted with loans from P.L. 480 sales proceeds amounting to about Rs. 136 crores. Besides, Rs. 6.6 crores were loaned to India for the purpose of rural industrialisation.

Financial and Investment Institutions

The Indian government has established a number of financial institutions to assist private enterprises by advancing loans, underwriting share inssues, arranging for foreign collaboration, etc. Many of these institutions have been extended both dollar and rupee credits from the United states. The following table shows the assistance received by various financial institutions.

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1. The United States gave loans amounting to Rs. 242 crores from P.L. 480 sales proceeds for the river valley projects. In addition, various hydroelectric power projects were also extended credits to the tune of Rs. 64 crores from the same cource.
   See, Fact Sheet 21, New Delhi, USIS, February 1970.

Table 1o

Assistance to Indian Financial Institutions

Institution	Dollars in millions	Rupees in crores
Industrial Finance Corporation		
First Loan	9.6[x]	37.5o
Second Loan	18.7[xx]	
Industrial Credit and Investment Corporation of India	4.5[x]	25.oo
Industrial Development Bank		127.5o
Total	32.8	19o.oo

Source: Fact Sheet 21, United States Economic Assistance to India, New Delhi, USIS, February 197o.

Note: [x] Loans repayable in rupees
[xx] Loans repayable in dollars

The loans received by the Industrial Financial Corporation were meant for extending medium and long-term credits to industrial enterprises in the private sector. The Industrial Credit and Investment Corporation received American credits for extending medium and long-term loans for specific projects for the development or expansion of private industrial enterprises. The Industrial Development Bank also plays an important role in financing the private sector.[1)] Thus Indian private industry was indirectly given assistance from the United States.

The Indian Private Sector also directly obtained credits from the United States under the Cooley Fund. This fund provided loans from a part of the local-currency proceeds

1. Industrial Development Bank started functioning as an "apex institution coordinating and supplementing the operations of other institutions providing term-finance to industry and as an agency for providing direct financial assistance by filling the gaps that remain after taking into consideration the assistance available from other institutions". See RBI - Report on Currency and Finance for the Year 1964-65, Bombay 1965, p. 78.

from the sale of American agricultural commodities[1] (P.L. 48o programme). The amount of credits extended to private enterprises until 197o was Rs. 97 crores.

The United States has extended assistance to India in other fields as well. The US provided the National Productivity Council[2] with assistance of Rs. 1.7 crores in the form of experts, grants and loans from P.L. 48o rupee funds, during the period under study.

As regards technical assistance, the United States began providing such assistance already in 1952 when the Indo-US Technical Cooperation Agreement was signed. As stated elsewhere, the purpose of this programme was "to make knowledge, techniques, men and materials of one country available for the economic and social development of the other".[3] Whereas at the beginning this programme was a channel for various types of American assistance, including development assistance, the contents of the programme changed in 1954 when development assistance came to be stated distinctly seperate from technical assistance.

Technological backwardness has been considered as one of the major obstacles on the path of rapid industrialisation. Technological change has been called 'a prime mover in the course of economic development'.[4] "Technology is the vital

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1. There are two categories of borrowers. a) American firms or their subsidiaries operating in India, or Indian firms having an affiliation with an American firm; b) Indian firms with no American affiliation but facilitating the disposal of American agricultural products. See, Fact Sheet 21, p. 31.

2. The National Productivity council was established in 1958. The Council is composed of government representatives, employers and employees. Its objective is to promote productivity, consciousness and efficiency of operation of industries and effect higher standard of living through higher productivity. The Council, based in New Delhi, has four Regional Productivity Councils and thirty local centres in industrial towns.

3. Indo-American Technical Cooperation:1952-56, New Delhi,USIS 1957. p. 5.

4. Charles P. Kindleberger, Economic Development, New York, 1958, p. 91.

growth component in each of the four traditional economic input factors: land, labour, capital and education".[1] And the United States appears to have realized the problem of technological backwardness in India. As a part of her various programmes, the US has extended technical assistance[2] to India in almost every field.

Finally, it should be noted that the US has also given assistance in the field of export promotion.[3] Export promotion is of considerable importance for the developing nations in improving their balance of payments position. The US has assisted India in a series of commodity surveys of products that have potential for significant export increases. These surveys are designed to provide information on potential customers and other producers in the field and to pinpoint various problems holding back India's export growth. The US has also assisted in functional surveys examining the factors involved in India's foreign

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1. James B. Quinn, "Scientific and Technical Strategy at the National and Major Enterprise Level" in UNESCO, The Role of Science and Technology in Economic Development, Paris 1970, chapter 4.

2. Technical assistance has a major contribution to make in helping design and adapt technological and social innovations that stretch available resources and create new ones. It must be, however, borne in mind that technical assistance is not synonymous with development. "It can only act as a catalyst and vital support to a process that must be rooted in the commitment and insights of each country's leadership elements, the attitudes and skills of its people/.../ its economic and policy environment, and the diverse private and public institutions that channel human effort." See, Rutherford M. Poats, Technology for Developing Nations, The Brookings Institution, Washington, D.C. 1972, p. 5.

3. For a critical view of Indian export incentives see, Charles Staelin, "Indian Export Incentives: A Critical View", The Indian Economic Journal, Vol. XXI, October-December 1973, pp. 107-123, and Export Promotion in Less Developed Countries: A Case Study of India (1971), Unpublished Ph. D. dissertation, Ann Arbor, The University of Michigan.

trade to see whether improved facilities and reduced costs can be effected.

To sum up, there have been two serious obstacles in large-scale industrialisation in India. The lack of sufficient capital resources and technological know-how. The US has extended assistance to India in alleviating these two problems. During 1951-1971, the US contributed, in the form of capital and technical assistance, 19 per cent of the total investment in organised industries and minerals.

B. Overheads

Although the strategies of economic development are many, they are not exclusive. They are functionally related. Large-scale investments in major productive sectors alone will not suffice. Any development-strategy should be designed to supply the transport, communication and power infrastructure which are essential for further development. In addition, the strategy should be designed to eradicate disease, illiteracy, lack of skills and other obstacles to economic development. Underdevelopment can be traced to various social, political and psychological factors.[1] It is, thus, worthwhile to examine the contribution of American assistance to India's development in this context.

a. Economic Overheads

Power

In many ways, it is electric power which will determine India's rise from an impoverished bullock-cart economy to a stage of self-reliant development.[2] The use of electric power can indeed be a measure of 'development'. It could increase output and employment through industrial development: it can also facilitate higher production of food-grains and other agricultural products through electrification of pump sets and tubewells. The standard of living of a people can also be measured by the per capita consumption of electricity. The availability of power facility heralds a revolution in the village life of a country like India.

As it is evident from the pattern of energy consumption during the 1960s, electric power has played a prominent role in the industrial development of India. The industries of the total consumption of power accounted for about 70 per cent. Besides, about 8.8 per cent was consumed by small industries,

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1. See Gunnar Myrdal, Asian Drama, Vol. III, New York 1968. Appendix 2 for a treatment of the mechanism of under-development and development.

2. Towards a Self-Reliant Economy: India's Third Plan 1961-66 New Delhi 1961, pp. 259-65.

modern agricultural operations and villages.[1)]

The Second and Third Plans emphasized the establishment and development of heavy and basic industries which necessitated adequate power development in India. Power was, therefore, given a very high priority in India's plans for development. The United States has extended substantial assistance towards this end.

In measuring the impact of the US assistance on power development, we shall consider the share of American assistance in the total investment in this sector and also whether the US assistance gave the same priority in its total programme of assistance to the development of power, which had been accorded in the Indian Plans. In addition, it is worth assessing as to what percentage of total installed capacity was due to the US assistance.

The following table shows the US assistance to power development.

Table 11

US Assistance to Power Development 1951-71

1. Total Public Sector Investment	Rs. 3.854 crores
2. American assistance for Power Development	519[x] "
3. Share of US assistence in per cent	13.5
4. 1 as per cent of total public sector investment in sectors (Rs. 21.374 crores)	18.3
5. 2 as per cent of total assistance from the US (Rs. 4.776 crores)	11.o[xx]

Source: Indian Industry, Yojana, Annual Number 1972, New Delhi, p. 89 and The Fourth Plan Mid-Term Appraisal 1971, p. 27, RBI-Report on Currency and Finance for 1971-72, Bombay 1972, Statement 162.

Note: [x] Does not include assistance given to private sector power projects totalling Rs. lo.2 crores and an undisbursed amount of Rs. 12.5 crores.

[xx] Only total utilised aid is taken into account.

1. See Report for 1969-7o, Ministry of Irrigation and Power, GOI, New Delhi 1971, p. 49.

In all 3o projects have been given assistance by the US either wholly or partly. Some 2o projects, with a total capacity of about 4 million kilowatts, are equipped with power generators financed by the US. The remaining 1o projects received assistance from rupee funds derived from the sale of the US agricultural commodities. The power generators of these projects, however, are not financed by the US.

Of the 16 million kilowatt total power generating capacity available in 197o, as much as one-third was accounted for by the 3o US financed projects. The generating capacity of these projects is about 6.5 million kilowatt[1]. Thus the American contribution is quite substantial.

It should also be noted that during the period 195o-197o, the installed generating capacity increased by about 13 million kilowatt[2] and the US financed projects contributed over 45 per cent of this increase. The growth in installed capacity during 1951-6o was 3.2 million kilowatt whereas the growth during 1961-197o was nearly 1o million kilowatt[3] - The American assistance to Power development in India began in 196o. It is thus evident that the American assistance played a key role in argumenting India's power resources.[4]

Transport

The important role of transport as an integral part of the economic system is widely recognised. Cheap and efficient system of transportation is indispensible for the economic

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1. Fact Sheet 22: United States Economic Assistance to India, New Delhi, USIS, August 197o, p. 19.
2. India; Pocket Book of Information 1972, Ministry of Finance, New Delhi 1973, p. 67.
3. Ibid., p. 67. It may be noted that the annual per capita consumption during 1951-6o increased from 18 kwh to 38 kwh and during 196o-7o from 38 kwh to 84 kwh.
4. The US also extended assistance in the form of experts to many individual projects, and facilitated the purchase of power equipment such as transmission lines and transformers for both rural and urban electrification. America also trained Indian technicians for various purposes.

development of a country. A close relationship between agriculture, industry, power and transportation is essential for the development of India's resources. Proper and adequate means of transportation facilitate mobility of the factors of production. The process of industrialisation and agricultural development itself increases the demand for transportation facilities. In view of this, the Indian Plans have stressed the importance of improving transportation.

Table 12 shows the US assistance towards the development of the Indian transportation system.

Table 12

American Assistance to Transport Development 1956-71

Rs. crores

Type	total outlay	American assistance	US assistance as % of total
1. Rail Transportation	323o	115.o	3.6
2. Road	1o87	62.8	5.7
3. Port Development	268	38.6	14.o
4. Civil Aviation	221	92.5	42.o
Total	48o6	3o8.9	6.4

Source: The Third Five Year Plan pp. 535-36; The Fourth Five Year Plan (1969-74), p. 339; Fact Sheet 23, New Delhi, USIS, 1971; Fourth Plan Mid-term Appraisal 1971, and Report on Currency and Finance for 197o-71, RBI, Statements 169 and 161.

As is evident from the table, the American assistance to this sector is relatively small. It contributed 3.6 and 5.7 per cent towards rail and road transportation respectively. However, the other two branches received greater attention. Civil aviation received substantial assistance which enabled to buy aircrafts of American manufacture. A part of the total US assistance, Rs. 43.75 crores came from the P.L. 48o rupee funds.

An important US financed project was the Varanasi Diesel Locomotive Works with a capacity of 150 locomotives per year. Total capital investment in this project was about Rs. 19.5 crores and the foreign exchange component comprised of one-third of the total investment.[1)]

b. Social Overheads

Education

Education is of fundamental importance for economic development as well as social and cultural advancement of a nation.[2)] Education is a "basic human right and the low income societies need literate and active citizens as well as citizens with skills appropriate to the changing economic structure".[3)] The case for education as a factor in economic development rests on practical grounds. It is a good investment in human capital. It is increasingly recognised that the acceleration of development may be thwarted by a deficiency in knowledge and skills embodied in human beings.[4)] Therefore, it has become a common aspiration of the developing nations to achieve the objective of universal education. The achievement of this objective, however, involves not only the difficult task of building schools and training teachers for the future generation but also undertaking various educational and training programmes. The process of development implies solving the immediate as well as the future problem of find-

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1. The US assistance to railways included a number of electric locomotives and components used in the local manufacturing of rolling stock and other equipment. She has also supplied steam and diesel locomotives. Besides, the US has provided assistance towards the installation of centralised traffic control equipment.
   Major assistance in Road transportation has been given in the field of motor vehicle production. The non-project loans advanced have been used for the importation of vehicle components.
2. See E.A.G. Robinson and J.E. Vaizey (eds), The Economics of Education, London 1966 and John W. Hanson and Coles S. Brembeck (eds), Education and Development of Nations, NY 1966.
3. Partners in Development, Report of the Commission on International Development, London 1969, p. 67.
4. Gerald Meier, Leading Issues in Economic Development, Oxford University Press 1970, pp. 598-603. See also the following pages.

ing professional, technical and administrative manpower.

At the time of independence in 1947, the educational picture of India was pathetic. The percentage of the literate in 1951 was only 17.[1] The overall provision of education facilities was quite inadequate. In 1950-51, only 43 per cent of the children in the age group 6-11, about 12 per cent of the age group 11-14, 5.3 per cent of the age group 14-17[2] and 0.9 of the age group 17-23 received educational facilities.[3] Technological education such as engineering had not developed uniformly at all levels when the First Plan was launched. Educational facilities were not properly distributed between rural and urban areas and among different sections of the Indian society.

The Indian government stated that "in a democratic set up the role of education becomes crucial since it can function effectively only if there is an intelligent participation of the masses in the affairs of the country."[4] Despite the basic importance of education for Indian development, the government's investment in the human capital during 1951-71 was relatively small. To begin with, we shall see what assistance the United States has provided to the furthering of Indian education.

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1. The First Five Year Plan, New Delhi 1952, p. 525.
2. India, Pocket Book of Information 1972, Ministry of Finance, New Delhi 1973, p. 210 and 212.
3. The First Five Year Plan (1952), p. 526.
4. Ibid., p. 525

Table 13

American Assistance to Education 1951-71

Field of education	Millions of $ Grants	Crores of Rs. Grants	Crores of Rs. Loans
1. Exchange Programme	12.5	11.1	-
2. Indian Institute of Technology, Kanpur	13.9	5.2	4.25
3. Higher Technical Education	-	16.56	26.57
4. Higher Education	4.o	-	-
5. Elementary Education (Primary & Secondary)	6.5	78.3o	42.83
6. Technical Education Institute	-	o.12	-
7. Home Science Education	o.13	-	-
Total	37.o3	111.28	73.65

Source: Fact Sheets 2o, 22 and 23 (New Delhi, USIS, S. Chandrashekhar, American Aid and India's Economic Development, New York 1965, pp. 139-147.

Note: In addition to this assistance the US has extended rupee loans amounting to 57.68 crores and 6.4 crores towards Community Development/National Extension Schemes and Urban Development/Slum Clearance respectively as a part of education-assistance.

Let us now see the share of American assistance in the total Indian outlay on education during the period of study. It can be ascertained from the table below that the share of assistance for education in the total American assistance to India is small, 4.4 per cent. However, the total Indian outlay on education during 1951-71 was only Rs. 1.546 crores or 7.3 per cent of the total public sector outlay on all sectors of Indian economy. The American contribution becomes more significant when compared to the Indian outlay on education.

Table 14

Share of American Assistance to Education

1. Total outlay on education	Rs. 1.546 crores
2. American assistance to education	21o "
3. Share of US assistance in total outlay (1)	13.6 %
4. US share in the total US assistance (Rs. 4.776 crores)	4.4 %
5. Total public sector outlay on education as per cent of total outlay on all sectors (Rs. 21.734 crores)	7.3 %

Source: Reports On Currency and Finance for various years; The Third Five Year Plan (1962), p. 576 and Fourth Plan Mid-Term Appraisal (1971), p. 195.

It should be noted here that by the end of 1971, 8o per cent of the children between 6-11, 34 per cent of children between 11-14 and nearly 21 per cent between 14-17 went to schools.[1] With regard to engineering and technology, the number of persons who graduated in 1971 in these fields was 15.528 as compared to 2.2oo in 195o-51. Those who completed diploma courses totalled 16.752 persons as against 2.48o in 195o-51.[2] There were 138 engineering and technological colleges with admission-capacity of about 21.44o students a year as compared to 49 with a capacity of 4.12o students.

It may be difficult to evaluate the impact of American assistance to Indian education in precise terms. However, it is possible to get an idea of its contribution to education in India; in particular in the fields of elementary education and technical education by the size of the US share in the total outlay on education.

1. India; Pocket Book of Information 1972, p. 212
2. Ibid., p. 21o and Third Five Year Plan (1962), p. 6o8

Health

The importance of the health of people for the overall development of a nation cannot be over emphasized. Health facilities available are an important item in a country's standard of living. Improved health conditions should increase labour input and efficiency; they can also increase the availability of cultivable land, as when malarial areas are drained and sprayed.[1)]

The problems of health has been considered to be one of the major obstacles to development in India. The First Plan pointed out that "the present low state of public health is reflected in the wide prevalence of disease and high rate of mortality in the country as a whole and in particular among vulnerable groups such as shildren an women in their reproductive age period".[2)] Health conditions are obviously a determinant of mortality and fertility, and, consequently, of quantitative population trends. Furthermore, "the loss caused by morbidity in working time is enormous. To this must be added expenditure to the individual and to the state in the provision of medical care".[3)] The state of public health in India is indicated, for instance, by the death rate which was 27.4 per thousand[4)] in India in

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1. Gunnar Myrdal (1968), op. cit., p. 1554. See pages 1553-1619 for a discussion of various aspects health and policies in South Asia.

2. The First Five Year Plan (1952), p. 49o.

3. Ibid., p. 491.

4. It must be borne in mind that Indian statistics concerning birth and death rates are subject to serious limitations and are often only rough estimates. For example, the death rate for the decade 1941-51 mentioned here is taken from Registrar General of India, Vital Statistics of India for 1961. This source gives a birth rate of 39.9 per thousand for 1941-51. However, Kingsley Davis in The Population of India & Pakistan, New York 1968, Second Edition) gives a death rate of 21 for 1941-48 and a birth rate of 28.3 for 1941-45. His sources are UN Demographic Year Book (1948) and Monthly Statistical Bulletin for death rate, and Demographic Year Book (1948) for birth rate. Davis stresses that the Indian Official records are inadequate. See Davis, the chapters 5 and 9 for discussions of the sources of error. We have taken the post-independence Indian source since the Indian Census encompasses the whole population whereas the preind-

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the decade ending 1951 as compared to 11.7 in the United Kingdom[1] and 9.6 in the United States. Deaths due to epidemic diseases was 5.1 per cent and more than 57 per cent of the sick died of fever. Another serious difficulty was the utter shortage of medical and health personnel and physical facilities. For instance, in 1951 the number of doctors available was 56.000 and number of beds in hospitals and dispensaries 1.113.000[2] for a total population of about 361 million.[3]

Under such circumstances, the programme of health development was given considerable attention by the Indian planners already with the lauching of the First Plan. The US assistance to this end also began in the early fifties. The total assistance extended to health and family planning programmes during 1951-71 amounts to Rs. 276,5 crores. The details of the US assistance are shown in the table below.

Table 15

American Assistance to Health Sector 1951-71

(Rs. crores)

Programmes	Total Indian Outlay	American assist.	US assist. as % of Total
1. Malaria eradication and Control, Medical education and facilities etc.	7o4	188	27
2. Family Planning	187	16,5	8.8
3. Water Supply and Sanitation, etc.	531	73	14
Total	1422	277,5	19.5
Total outlay on health sector as per cent of total outlay on all sectors		6.6	
US assistance to health sector in total assistance from the US		5.7	

Sources: Fact Sheet 23 (USIS), The Third Five Year Plan (1962), p. 651 and Fourth Plan Mid-Term Appraisal 1971, pp. 221-23 and 23o.

Contd.

pendence Indian sources on which Davis's sources are based on registrations covering only about threefourths of the population. Davis cites several other reasons as well for the inadequacy of his statistics.

1. Council of Europe, Statistical Data 1958, Strasbourg, p. 33.
2. The Third Five Year Plan (1962), p. 653.
3. Contd. on next page

In terms of priorities, Malaria eradication and control was given more prominence not only in Indian health programmes but also as regards American assistance to health sector. Almost 4o % of the assistance went to this end. The incidence of malaria was so high in some regions of India that serious economic activity was impossible.[1] The First Plan stated that nearly 1oo million people suffered from malaria in 1951 and the annual mortality was about one million.[2] Hence the top priority to the eradication and control of this disease.

The US assistance towards this end has played an important role in the success of the programme. Most of the drugs, insecticides and equipment used under the National Malaria Eradication Programme have been purchased with dollar assistance from the US and the rupee assistance accounts for a considerable portion of the local expenditure incurred under the Programme.

As a result of the intensive efforts to eradicate malaria, the incidence of the disease was only about o.4 per cent in 1969. Virtual eradication of this disease must have had considerable positive effects on labour productivity, though the actual gain may be difficult to measure.

The United States has also assisted India in its efforts to fight other communicable diseases as well as the programmes

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Census of India, 1961, Vol. I, India Part II-A (i), General Population Tables, p. 181. Quoted in S.N.Agarwala, India's Population Problems, Delhi 1973, p. 41.

1. Malaria saps the energy of its victims for a long time, and hence adversely affects their ability to work. It is also known that malaria tended to strike at planting and harvest times when hard labour was most needed. It often prevented the use oflarge areas of land and occassionally made useless large construction investments in harbours, engineering works and river valley projects. See Gunnar Myrdal (1968), op. cit., p. 1616.

2. The First Five Year Plan (1952), p. 49o.

of medical education and facilities. For instance, the rupee assistance from P.L. 48o funds financed the training of 4.5oo teachers for medical colleges in India during 1951-71. The US has also supplied various scientific and laboratory equipment for medical education.

Family Planning

India is the only major country in the world that for many years has had a public policy aimed at reducing fertility through the spread of birth control among the masses. India has also made serious efforts to effectuate the policy. The family planning programme initiated in early 195os was for several years characterized by caution. The Draft Outline of the First Plan recognised the problem of increasing population pressure. In the final version of the Plan, however, the population issue lost its priority though it was noted that "the pressure of population in India is already so high that a reduction in the rate of growth must be regarded as a major desideratum".[1] A vigorous action-cum-research scheme was launched during the Second Plan. The Third Plan accorded the population problem a high priority. It was emphasized that "the objective of stabilising the growth of population over a reasonable period must be at the very centre of planned programme".[2] The Fourth Plan described it as a 'programme of highest priority'.

The birth rate was roughly 41.7 per thousand during the decade 1951-61 and is estimated to be around 41 in 1961 and perhaps remained at the same level till 1966.[3] Between one and onequarter million births are believed to have been averted each year as a result of family planning activities during 1967-68 and 197o-71.[4] Consequently, the birth rate is believed to have declined by two points and came down to 39. The birth rate in 1971was estimated to be around 39.

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1. The First Five Year Plan (1952), p. 23.
2. The Third Five Year Plan (1962), p. 25.
3. See S.N. Agarwala (1973), op. cit., p. 44.
4. Ibid.

The United States actively supported many aspects of the programme. The US provided assistance to meet the cost of importing vehicles and components for manufacturing vehicles which would increase the mobility of family planning teams, especially in rural areas. The US has extended assistance to provile condoms and oral contraceptives and American technicians have assisted in demographic research. It must be, however, emphasized that the role of American assistance, while useful, is marginal and subordinate to the initiatives of the Indian government.

C. Agriculture

In the past there has been a tendency to make economic development efforts synonymous with industrialisation. India's Second Plan adopted as one of its principal objectives rapid industrialisation "with particular emphasis upon the development of basic and heavy industries". While it is understandable that these industries need special attention, it would be an error to assume that such industries alone are important.[1] The Indian government did recognise. at an early stage in the formulation of the Second Plan, that special emphasis on basic and heavy industries would demand a largely increased agricultural production. The social goal of reducing disparities being the Government objective, the agricultural development programmes were based "intensive cultivation of land by hand and improving conditions of living in rural areas through community projects, land reforms, consolidation of holdings, etc."[2] The strategy rested on the capacity of the Community Development Programme to mobilize more than 6o million peasants for participation in labour intensive agricultural production programmes and community works. However, in the absence of agrarian reform it proved impossible to provide incentives to the majority of small farmers for participation in labourintensive agricultural production programmes.[3] And in the late fifties, lagging growth rates in the agricultural sector became a serious obstacle to the overall rate of economic advance.

In the Third Plan, agriculture was given the highest priority 'of all India's plan for development, today and over the future'.[4] The objectives were to produce enough foodgrains to be self-sufficient and to produce enough commercial crops

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1. See Amlan Datta, Perspectives on Economic Development, London 1973, pp. 97-118.
2. P.C. Mahalanobis, Talks on Planning, Bombay 1961, p. 69.
3. Francine Frankel, India's Green Revolution: Economic Gains and Political Costs, Princeton 1972, p. 4.
4. Towards a Self-reliant Economy: India's Third Plan 1961-66, New Delhi 1962, p. 169.

to meet the needs of exports and industry. The success of the Third Plan was dependent upon the fullfillment of its[1] agricultural targets. The principal technical programmes for increasing agricultural production were irrigation, soil conservation, dry farming and land reclamation, supply of fertilisers and manures, seed multiplication and distribution, etc.[2] A programme of Intensive Agricultural District Programme was started in 1961 with the aim of emphasizing and encouraging farmers to use 'not one but all of the improved farming methods known to be valuable in increasing food production'.[3] The size of the farms was not to be paid too much attention. As W.A. Lewis pointed out, "the secret of rapid agricultural progress in the underdevloped countries is to be found much more in agricultural extension, in fertilisers, in seeds, in pesticides and water supplies than in altering the size of the farm".[4]

Since the problem of agricultural development was vital to the overall economic development of India, the United States could hardly afford to remain indifferent to the problems of rural India. The US assistance to Indian agriculture has revolved around the approach of making cultivated land yield double or treble, and of bringing the available cultivable land under cultivation.

The US assistance to Indian agriculture started with the signing of the Technical Cooperation Agreement in early 1950s. Subsequent to 1965, a newer approach to the problems of external assistance changed the composition of American

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1. Government of India, The Third Plan, New Delhi 1962, p. 303.
2. The Third Plan (1962), p. 305
3. This programme was initially pioneered by the Ford Foundation and emphasized the necessity of providing the cultivator with complete 'package of practices'.
4. W.A. Lewis, The Theory of Economic Growth, London 1955, p. 136.

assistance to India, giving more emphasis to agriculture.[1] Consequently, about 4o per cent of the total technical assistance expenditure of the US AID in India during 1965-1969 as against 24 per cent during 196o-65.

The objective of the new approach was to assist India to become self-sufficient in foodgrains production. In contrast to ad hocism of the past, the programme assistance stressed the achievement of the goal of self-sufficiency. "The key to victory is self-help. Aid must be accompanied by a major effort on the part of those who receive it. Unless it is so more harm than good can be the end result".[2] It was proposed to increase capital and technical assistance, so that 'self-help will bear fruit through increased farm production'.[3] In pursuance of this objective, the US assistance covered a wide range of growth activities in the field of agriculture.

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1. The United States assistance to agricultural development in the less-developed countries underwent a major change during 1964-66. Whereas in the past the agricultural development was not considered the most important element in the overall assistance programme, it was given priority attention after 1965. This new emphasis on agriculture stemmed from a growing concern in the US about the food situation in many developing countries and their inability to increase food production at a rate commensurate with population growth. Moreover, the interdependence of growth in agricultural productivity and general economic growth was now more clearly understood than it was when the post-war development effort first got under way.

   See, OECD, Aid to Agriculture in Developing Countries, Paris 1968, p. 63 ff.

2. President Johnson's Message on Food For Freedom on lo February, 1966. Official Text, United States Information Service (USIS), 11 February, 1966, p. 2.

3. Ibid.

   See also OECD (1968), op. cit., for further details as regards the various American assistance activities.

The following table shows the US assistance to Indian agriculture.

Table 16

American assistance to Indian Agriculture

Field of assistance	Dollar assist. (millions)	Rupee assist. (crores) Grants	Loans
1. Irrigation Projects	31.9o	8.94	235.9o
2. Plant Protection	2.o1	-	-
3. Agricultural Universities Development & Research	-	1.84	18.5o
4. Modern Storage of foodgrains	-	14.o4	2.95
5. Dairy Development		4.o7	-
6. Soil, water and forest conservation	-	1o.o8	3o.61
7. Exploration of Ground Water resources		o.8o	
8. Minor Irrigation and Flood control	-	-	191.62
9. Rural Electrification		1o5.oo	136.4o
1o. Agricultural Production	-	-	25.5o
11. Agricultural Refinance Corporation	-	5.oo	-
12. Fisheries, Agro-industries Commercial crops	-	-	11.4o
Total	33.91	149.77	652.88

Source: Fact Sheet No. 23, New Delhi:USIS, 1971.

The total American assistance to Indian agriculture up to March 1971 amounted to about Rs. 8o2 crores, excluding fertilisers supplied through non-project loans and assistance to fertiliser plants. In addition, som 1o9 agricultural experts were also serving in India in response to the Indian government requests.

If we compare the US assistance to Indian agriculture with the total outlays by the Indian government in this sector during 1951-71, American contribution would become more clear.

Table 17

American assistance as per cent of Total Outlay

(Rs. crores)

Sub-sector	Total Outlays	American assist.	Share in per cent
1. Agriculture and Allied sectors	3.925	342	8.7
2. Irrigation and Flood Control	2.71o	46o	17.o
Total	6,635	8o2	12.1

Sources: Reports on Currency and Finance for the Years 1968-69 and 197o-71, Irrigation and Power in the Plans 1951-1966 and The Fourth Five Year Plan 1969-74.

One of the major ingredients of the agricultural strategy for self-sufficiency have been high-yielding varieties of seeds.[1] Until 1964, only a few varieties of improved

1. This is a part of what is known as the 'green revolution'. It is clear that the High Yielding Varities Program has been successful in raising foodgrains production. However, the benefits of the new technology of 'green revolution' have been very unevenly spread because of the inadequate capacity of many small farmers, tenants and others to undertake the investments needed for the success of the new technology.
It may be noted here that the experience of the 'green revolution' in the latter half of the 196os for Lewis quoted earlier. "It was not a major reorganisation or change in size of land-holdings which directly led to substantial increase in food production in those years. The green revolution is above all a clear confirmation of the value of agricultural research " See Amlan Datta (1973), op. cit., p. 118.
The economic disparities between the minority of cultivators who could make the necessary investments and the majority who could not, was recognised by the Indian government. "The small farmers have not benefitted in proportion either to their numbers or their needs from the various programs..." See Report of the All-India Rural Credit Review Committee, Bombay:RBI, 1969, p. 537.
For discussions of green revolution see, Lester Brown, Seeds of Change, New York 197o; Francine Frankel (1971), op. cit.,Keith Griffin, The Political Economy of Agrarian Change: An Essay on Green Revolution, London 1974. For a brief discussion of the aspects of growth and distributive justice in Indian agricultural policies since independence see, Sano, H,O and Hatti, Neelambar, "Growth and Distributive Justice in Indian Agricultural Strategies since 1951", in Economy and History, Vol. XVIII:2, 1975.

seeds of wheat, such as Punjab 591 or Pusa 52, were available to farmers. But later on the introduction of two dwarf varietis of wheat, namely Sonora 64 and Lerma Rojo from Mexico[1], opened up new possibilities in wheat cultivation. The yield potential of these seeds was twice or almot thrice as much as that of other varieties. The US gave assistance to Indian agricultural universities to develop even more productive varieties of dwarf wheat such as Sonalika 3o8, Sona 227, R.R. 21, Safed Lerma and Choti Lerma. The dwarf rice strains, originally developed in the Phillipines and introduced in India, were later replaced by R.S. This variety was developed in India with American assistance and has a higher yield potential and greater resistence to disease. Similarly new seeds have been developed in the case of Maize, Jowar and Bajra.

Besides traditional foodgrains, some new varieties of cereals came into Indian agricultural production. One of these grains was Soyabean which is very rich in protein, 4o-42 per cent and fat content 2o-25 per cent of the grain weight.[2]

The United States has also extended assistance towards building unique 'growth chambers' for laboratory production of rice and to study rice plants by duplicating actual field conditions. The National Seeds Corporation which raises and distributes foundation seeds and has a national programme of seed control and certification has been given assistance since its inception in 1963. These observations reflect on the role of American assistance in improving seeds.

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1. For a brief description of the development of the new seeds, see, Lester Brown (197o), op.cit., pp. 15-23, see also Norman Borlaug, Wheat Breeding and its impact on on World Food Supply, Canberra 1968.

2. D.P. Singh, "Agriculture - Promises and Performances", The Hindusthan Times, February 2o, 197o.

   In addition, the US also sent expert teams to help Indian Scientists and workers to spot out an analyse the problems encounteres by farmers while introducing new crop varieties.

The higher yields obtained by the new varities of seeds require not only large quantities of fertilisers and pesticides but also a well-developed system of irrigation capable of proper control over the water supply to individual fields to give their full potential yields.[1] Moreover, the 'green revolution' is not a once-for-all technical breakthrough resulting in the 'miracle seeds'. In order to sustain it, there would have to be continuous research at both international and national levels.

As mentioned earlier, the new seed varieties require large quantities of fertilisers. Accordingly, the demand for fertilisers steadily increased from about o.7 million tons in 1965/66 to over 2 million tons in 197o/71.[2] The growing demand for fertilisers was in excess of the supply despite increased domestic production. Consequently, fertiliser imports became essential for meeting the deficit. The total American assistance to fertiliser imports during 1961-71 amounted to Rs. 542 crores, some 8o per cent of the total fertiliser imports of Rs. 668 crores.

Besides supplies of fertilisers, the United States has assisted India in setting up fertiliser plants to meet the long-term needs. The following table shows the US assistance to Indian fertiliser production.

Table 18

US Assistance to fertiliser prod.

Plant	Capacity (Tons)	US assistance Foreign exch.	Rupee	Total	Total Cost	Amer. assist. in %
1. Trombay	1,35,ooo (Expanded 5,oo,ooo)	27.2	13.4	4o.6	63	66
2. Vishakapatnam	3,65,ooo (Expanded 5,2o,ooo)	18.4	12.3	3o.7	5o	61.4

Source: Fact Sheets 22 and 23, USIS: New Delhi, Fourth Five Year Plan 1969-74, Third Five Year Plan 1961-66.

1. See Hla Myint, "Green Revolution in South-East Asia". in Gerald Meier, Leading Issues in Economic Development, New York 3rd edition, 1976, pp. 581-586.
2. Ministry of Finance, India: Pocket Book f Economic Information 1972, New Delhi, 1973, p. 64.

The total capacity in production at public sector factories was about a million tons in 1969 of which half-a-million tons was assisted by the United States. The fertiliser units under construction in 1971 had a capacity of 11.5 million tons. In terms of financial contribution the United States contributed about 63 per cent of the total cost of Trombay and Vishakapatnam units.

Besides these units, several other fertiliser units have also been extended assistance: the fertiliser factory in Madras with a capacity of 271000 tons of fertiliser nutrients per annum, the Goa plant (a joint venture of the United States Steel corporation and the Birla Group) with a capacity of 156000 tons of nitrogen and the Khandla Fertiliser Complex with a capacity of 800000 tons finished fertilisers.

As regards irrigation, the availability of water in adequate quantities and at the right time is one of the basic determinants of agricultural productivity. In India one of the major obstacles to the full exploitation of the possibilities of intensive agriculture has been the lack of assured and dependable supply of water throughout the year. The new varieties of seeds in particular, responsive as they are to heavy application of fertiliser, demand a more intensive use of water.[1] The catastrophic droughts of 1965/66 and 1966/67 heightened the awareness of the need for a more rapid development of irrigation facilities.

Up to 1971, the United States had rendered assistance to 13 irrigation projects. The assistance amounted to $32 million in foreign exchange and Rs. 245 crores from P.L. 480 sales proceeds.[2] These projects contributed towards increasing the irrigated area from 22.6 million hectares in 1951

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1. See Lester Brown (1970), op. cit.,pp. 24-29.
2. Fact Sheet 23 (USIS 1971). Certain projects such as the Kosi River project were of considerable significance in the overall development of Indian agriculture. River Kosi was known as Bihar's 'river of sorrow' because it caused substantial damage to life and property by continually changing its course through one of the most densely populated areas of the country. The Kosi project was a three-stage project designed to control the river's unruly floods. After the completion of the project about 1.5 million acres of land came under irrigation.

to about 39 million hectares in 1971.[1] In addition to these irrigation projects, some 16ooooo acres are being irrigated by electric pump sets with the help of power by the Rihand Hydroelectric Project. The US financed about 73 per cent of this project. Besides the US AID has given amounting to Rs.166 crores from P.L. 48o sales proceeds for minor irrigation works. Another loan of Rs. 25 crores was given from the same source for the purpose of flood control which at times has played havoc with Indian agriculture.

The development of additional water resources and proper management of India's soil and water resources is important because maximum benefits from costly irrigation projects can be obtained only when the water supply is utilised efficiently.[2] The US provided expert assistance to India in developing programmes and establishing technical standards for soil and water conservation on rainfed and irrigated lands. The US AID gave assistance to three pilot projects for planning and applying programmes designed to give optimum benefits through proper use of water and consistent with the maintenance and conservation of the soil. AID extended grants totalling nearly Rs. 11 crores and loans amounting to about Rs. 26 crores for soil, forest and water conservation.

A sizable part of India's foodgrains production is destroyed by plant diseases as well as insects, rodents and other pests. If full benefits of irrigation, fertilisers and a high-yielding varieties are to be realised, extension of plant protection practices must go hand in hand. The consumption of pesticides increased twelvefold between 1957 and 1969 and the area treated with pesticides was expected to rise from 16

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1. Fourth Five Year Plan: Mid-Term Appraisal, New Delhi 1971, pp. 128, 13o.
   The irrigation facilities were, however, not evenly distributed. In Punjab, for instance, som 7o per cent of the cultivated land was under irrigation, where as in West Bengal it was only 22 per cent of the aldn (in 1971 the national figure was 23.3 per cent)
   See Dilip Hiro, Inside India Today, London 1976, p. 86.
2. Fourth Five Year Plan, 1969-74, New Delhi 1969, p. 19o.

million acres in 1961 to some 2oo million acres (gross) in 1974.[1] US non-project loans financed the cost of importing technicalgrade pesticides which were formulated in India. Moreover, a considerable part of India's domestic production of pesticides in 1971 was accounted for by joint Indo-American private enterprises, which received loans from the US government. The US also assisted India in purchasing 3o American spray aircrafts by extending a loan of Rs. 1.13 crores ($1.5 million) from a Export-Import Bank line of credit.

The problem of rural electrification was also given increasing importance. Rural electrification can make substantial contribution to the increase of agricultural and industrial production. It helps increase food production by energising pump-sets connected to wells and tube-wells and in the efficient processing of foodgrains and in the creation of modern storage facilities. At the end of the First Plan only 7.4oo villages were electrified. This figure rose to 25.63o by the end of the Second Plan and to 69.ooo by March 1969.[2] As regards energisation of pump sets, it increased from 513.ooo sets in 1961 to 1.o69.ooo sets in 1969.

The United States gave assistance towards rural electrification in the form of expert help to investigate the possibilities of establishing cooperatives to distribute power in rural areas. Besides, in 1969, the US approved a grant of Rs. 1o5 crores from P.L. 48o sources to the newly established Rural Electrification Corporation. The Electricity cooperatives were to play a key role in electrification of rural India, thereby having an immediate impact on food production through irrigation. In all loans totalling Rs. 136.4 crores were given for rural electrification from P.L. 48o funds during 1951-1971.

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1. Ibid., p. 123.
2. Ibid., p. 2o3

Research and Education in Agriculture

"Systematic research is the base upon which modern agriculture is built. Through research, the productivity of existing resources is increased, and even more important, it becomes possible to utilize an increased quantity of new and traditional resources at higher levels of productivity and profitability than previously".[1] The high levels of productivity that have been achieved in advanced nations have been made possible by the accumulation of a vast body of relevant scientific and technical knowledge.

There are several examples for the high rate of return to agricultural research. The joint programme of the Rockefeller foundation and Mexican government is an excellent example of research which has had a substantial impact on Mexican farmers and the total output of major crops. Between 1952 and 1962, average wheat yields increased from about 900 kgs to 1900 kgs per hectare.[2] There was a similar improvement in Mexico's maize production also. Perhaps one of the most dramatic examples of a research success is seen in the study of hybrid corn development in the United States, made by Zvi Griliches.[3] After totalling the aggregate returns from use of hybrid cornand the aggregate costs, including those of research failures in this area, he calculated a return of 700 per cent per year as of 1955. This illustrates the high returns which are potentially available from research as well as the specificity of research.[4]

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1. John W. Mellor, The Economics of Agricultural Development, Ithaca and London 1966, p. 268.

2. W.W. McPherson & B.F. Johnston, "Distinctive Features of Agricultural Development in the Tropics", in Southworth & Johnston, Agricultural Development and Economic Growth, Ithaca and London 1967, p. 202. See also Norman Borlaug (1968) op. cit.

3. Zvi Griliches, "Hybrid Corn and the Economics of Innovation" in Robert Fogel and Stanley Engerman, The Reinterpretation of American Economic History, New York 1971, pp. 207-213.

4. Because of substantial differences in light, temperature, and soil conditions, the specific technology evolved in temperate regions cannot be always applied directly in the tropics. While basic research is in general highly transferable, developmental and adaptive research have to be carried out in the tropical countries.
See John Mellor (1966) op. cit., pp. 280-286.

The importance of research has been realised in India. Since the early sixties, Indian scientists have conducted research in the field of agriculture with American assistance. A new technology is in the process of being created not only in India but in many tropical countries the increase the yields from foodgrains. This is the technology that has contributed to the 'green revolution' mentioned earlier and the core of the technology is based on biological research.[1)]

We have mentioned elsewhere that Indian researchers have successfully effected several radical innovations which have been of great value to farmers. The Indian Council of Agricultural Research is the apex organisation for sponsoring coordinating and directing agricultural research and education in India.

The Agricultural Research Service of the US Department of Agriculture has extended support to a variety of agricultural studies in India. Such research has been carried out in some 8o different institutions located in all parts of India. The US AID has given grants totalling about Rs. 9.5 crores to finance these researches out of P.L. 48o sales proceeds during 1951-1969. These researches have been of great value not only to India but also to the international developments in agricultural science.

During the 196os, eight new agricultural universities have been established in India with the cooperation of the US government and six American Universities. These universities do a great deal of practical work in the fields and participate in extension work - carrying knowledge of improved methods to farmers.[2)]

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1. See Keith Griffin (1975) op. cit., p. 78 and 2o3 ff.
2. Griffin has argued that while for many years research, extension and investment programmes in agriculture have been devoted to raising output, their primary concern has not been to increase the welfare of the rural population and improve the distribution of wealth and income. Larger farmers have been granted generous incentives to apply the new technology, while small farmers have been denied the credit necessary to improve their operations. This

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The payoff on agricultural research is potentially very high.[1] This may be particularly so in the developing countries like India where there is urgent need for new technologies to raise land productivity, both to increase the food supply and to provide a base for overall economic development.[2]

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is perhaps the most negative side of the "green revolution".
See Keith Griffin, The Green Revolution: An Economic Analysis, United Nations Research Institute for Social Development, Geneva 1972. See also Griffin (1975), op. cit.
Since production-oriented programmes of the "green revolution" have not extended income gains to all regions and economic groups, it is essential to consider explicitly welfare-oriented programmes. See Ralph Cummings Jr and S.K. Ray, "1968-69 Foodgrains Production", in Economic and Political Weekly (Review of Agriculture), September 1969. On inequality and new technology in India see also V.M. Dandekar & N. Rath, "Poverty in India - II", Economic & Political Weekly, Jan 9, 1971.

1. Ibid., pp. 243-247

2. As indicated earlier, there is also the urgent need to bring more areas and more group of cultivators to a position when they are able to participate in a technology that is profitable.

Chapter VII

Impact of Assistance Under P.L. 48o on Indian Economy 1956-7o

In a developing country a crisis of 'food gap' cannot be ruled out because of the aggregate demand of such an economy has a tendency to increase on one hand and the elasticity of supply is low on the other.[1] There has been a substantial increase in the populatòon of many developing countries since the 195os and the food production has failed to keep pace with demand.[2] One bad harvest in a region could mean food shortage. Bad harvest in two consecutive years could mean disaster. Indian case has to be seen against the ıck ground sketched here.

The food situation in India since the early 194os was marked by severe shortages.[3] Consequently, strict measures of price control and rationing were imposed and foodgrains imported on a large-scale. The controls were gradually relaxed during 1952-55 and by March 1955 residual vestiges of control such as restrictions on movement of foodgrains were completely removed. All the restrictions could be removed in 1955 because of good crops in the preceeding three years.[4] The disappearance of immediate difficulties enabled the Indian government to explore the possibilities of building up a buffer stock of food grains to meet crises in the future.

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1. See R. Nurkse, Problems of Capital Formation in Underdeveloped Countries, Oxford 1964.
2. On food problems of developing countries in general see OECD, The Food Problem of Developing Countries, Paris 1968.
3. Droughts and floods have always been rather frequent in India as a consequence of fluctuations in quantity, timing and distribution of reinfall between June and Sept. The "Handbook of Agriculture" records 152 floods and 124 droughts in various regions of India during 1875-195o. Cited by M.D. Morris, "What is famine?" Economic and Political Weekly, November 2, 1974, p. 1855
   For an analysis of food situation in India after Independence see, Bhatia, B.M.: Famines in India 186o-1965, Bombay 1967, p. 34o f.Bhatia, however, does not seriously study the short and long-term economic effects of the food problem.
4. The index of foodgrains production (base 1949/5o) rose from 91.2 in 195o/51 to 12o in 1953/54. Actually this year was a record year.

The need for reserves of foodgrains was two-fold: Firstly, agricultural production in India was subject to wide fluctuations. It was therefore necessary to have enough reserves to meet periodic shortages. Such stocks had to be built up mainly be imports because the domestic production did not permit any carryover of surplus foodgrains. Secondly, India had embarked upon a programme of planned economic development envisaging substantial investments in projects with long gestation periods. This was bound to generate inflationary pressure that might be felt more in the foodgrains sector than elsewhere. Hence the need of creating a buffer stock out of imported foodgrains.

These were the main considerations in the minds of the Indian government and the Planning Commission[1)] when they entered into negotiations with the US government and signed an agreement in 1956 for imports of agricultural commodities, mainly foodgrains, under Public Law 48o.[2)]

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1. "Agricultural production may fall short of the mark for reasons beyond human control. Other bottlenecks may emerge. There is always a certain lag between the creation of new incomes and the increase in available supplies on which they can be spent/.../The maintenance by Government of an adequate foodgrains reserve at all times so as to be able to meet an adverse situation effectively and promptly is a necessary safeguard against the inflationary pressures implicit in a big developmental programme". See Government of India, Planning Commission, Second Five Year Plan, New Delhi 1956, pp. 39-4o

2. The system of surplus commodity assistance was established by the US Congress in 1954 under the Agricultural Trade Development and Assistance Act known as Public Law 48o.x) The programme came into operation in India in 1956, and consists of four titles. Under Title I of P.L. 48o, the President of the United States is authorized to sell agricultural commodities for local currencies (not necessarily surplus agricultural commodities, for the foreign purchasers may buy from the most advantageous source in the USxx). Title II permits the donation of supplies by the President to foreign countries to meet famine and other emergency requirements. Title III permits US agricultural commodities to be used for a) bartering in exchange for strategic and other raw materials and b) donation to nonprofit voluntary agencies that assist needy persons both in and outside the United States. Title IV provides long-term credits to be repaid in dollars.

   The Cooley Amendment to P.L. 48o Title I provides a minimum of 5 per cent and a maximum of 25 per cent of the local

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In the following pages we shall briefly study the impact of P.L. 48o imports[1)] focussing attention on investment, and consumption, prices and production of foodgrains, in particular wheat.

To begin with, we shall examine the share of P.L. 48o funds in the resources of the Second and Third Five Year Plans as well as the Annual Plans.

Table 19

Share of P.L.48o Funds in Total Plan Resources

(in Rs. Crores)

	Second Plan 1956-1961	Third Plan 1961-1966	Annual Plans 1966-1969
a. Total Public Sector Outlay	4672	8573	6757
b. P.L.48o Funds[x]	545	853	823
c. Percentage Share of P.L.48o Funds	11.7	1o.o	12.o

Source: Government of India, India: Pocket Book of Economic Information 1972, pp. 27o and 3o9. Economic Survey 1971-72.

Notes: [x] Includes assistance repayable in convertible currency.

It can be seen from the table that the P.L.48o contribution[2)] to the financial resources available for the Plans

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currency proceeds from the sale of American surplus agricultural commodities must be devoted for loans to subsidiaries or associates of American firms in the recipient country.

x) For a full description of the system see The Annual Report Carried Out Under Public Law 48o, As Amended, During the Period January through December 31, 1966. US Government Printing Office, Washington D.C., 1967.

xx) Section (d) under Title I allows a part of the local currency sales proceeds to be set aside for buying goods and services for friendly countries.

1. For a detailed and thorough analysis of the impact of P.L. 48o on Indian economy see V.S. Patavardhan and N. Rath: Impact of Assistance Under P.L. 48o on Indian Economy, London 1967.
2. See Deena R. Khatkhate, "Some Notes in the Real Effects of Foreign Surplus Disposal", in Underdeveloped Countries", Quarterly Journal of Economies, Vol. LXXVI, May 1962.

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was significant. However, a detailed section-wise breakdown is not possible because a large part of the funds, particularly by the end of the Second Plan, had remained undisbursed or unallocated to specific projects.

As regards the Second Five Year Plan, the inflationary impact of the Plan was largely neutralised by the imports under P.L. 48o. The resources, which in the absence of the imports under P.L. 48o would probably have been diverted to agricultural industries producing such inputs as fertilisers, insecticides were allocated to the development of heavy and basic industries with long gestation periods. This diversion of resources probably created structural and market imbalances, with adverse effects felt subsequently.[1)]

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The P.L.48o funds going into the private sector during theSecond Plan totalled only Rs. 5 crores. It was more substantial during the Third Plan, about Rs. 76 crores, although it was still a small part of the total funds available.

1. What would have happened if imports under P.L. 48o were not available? Logically, in that event, more resources would have been allocated to agricultural development and it is quite possible that the subsequent crisis in the Third Plan could have been avoided.

   Concerning distortion of agricultural development pattern in a consequence of P.L.48o see, Hamza Alavi and Amir Khusro, "Pakistan: The Burden of US Aid" in Robert I. Rhodes (ed), Imperialism and Underdevelopment: A Reader, New York, London 197o. See also, C.A. Munkman, American Aid to Greece, London 1958.

   Isenman and Singer have argued that food aid eases a major constraint on growth in output and employment. A large part of workers' income is spent on food in the developing countries, most of it for foodgrains. From the planning point of view, "increments to public or private employment, through fiscal or monetary policy, must be measured against available food supplies, in many ways as if the whole economy consisted of a public sector food-for-work program in which all workers were paid two-thirds of their wages in food". Thus, the food aid "not only permit recipient countries to expand employment, but the high proportion of workers' incomes which gofor food grains means that farm prices need not suffer from food aid in the short run and can benefit from food aid in longer run because of dynamic effects on savings and income". See Paul J. Isenman and H.W. Singer, "Food Aid: Disincentive Effects and Their Policy Implications" in Economic Development and Cultural Change, Vol. 25, January 1977, p. 2o6.

The following table shows some of the indicators of change in the Indian economy during 1956-69.

Table 2o

Selected Indicators

	1955/56	196o/61	1965/66	1966/67	1968/69
1.National Income in Rs. crores (196o-61 Prices)	12,13o	14,14o	15,93o	15,243	17,o57
2.Per Capita Income (196o-61 Prices)	3o6	326	325	3o8	33o
3.Money Supply in Rs.crores	2,184	2,869	4,529	4,59o	5,779
4.Deficit Financing in Rs.crores	333	948	1,133	682	
5.Industrial Production(196o=1oo)	79	1o9	153	152	172
6.Foodgrains Production (1949/5o=1oo)	115	137	121	124	157
7.Estimated Additional Employment(millions)	-	8	14	-	-

Sources: Third and Fourth Five Year Plans, Report on Currency and Finance for the Year 197o-71 and Government of India, India 1971-72.

It can be generally assumed that increases in National Income, employment, etc, would have somewhat less in the absence of assistance under P.L.48o. However, it would be rather difficult to state the extent of increases. Besides, P.L.48o imports provided additional foodstuff and helped mitigate the inflationary pressure in the agricultural sector of the economy.

Table 21

Allocation of P.L.48o Sales Proceeds 1956-197o

(in Rs. crores)

	Grants	Loans	Total
1. Agriculture	38.83	4oo.oo	438.83
2. Industry	6.61	628.45	635.o6
3. Transport	19.6o	48.15	67.75
4. Labour	39.46	48.o2	87.48
5. Health	124.92	98.38	223.3o
6. Education	1oo.19	137.74	237.93
Grand Total	329.61	136o.75	169o.36

Source: Fact Sheet No. 22, United States Economic Assistance to India, New Delhi 197o.

Loans were generally granted to projects which would be productive and yield return more or less immediately, whereas grants were sanctioned for schemes contributing to social overheads. In addition, a part of the local currency proceeds[1)] from the sale of American surplus commodities was made available for lending to the private sector. The loans extended to Indian private sector amounted to[2)] about Rs.12o crores as of August 1, 197o.

Investment and Employment

To begin with, it is necessary to consider whether the use of rupee deposits as grants and loans serves any purpose as investment funds.[3)] It can be argued that acquiring such resources on interest may not be augmenting a country's resources because even otherwise it is possible to augment the resources through deficit financing. However, on the other hand, the P.L. 48o arrangements did provide the Indian government with large sums through the special security mechanism at an interest rate of 1.5 per cent. Furthermore, a part of the funds has been given as grants. It has been, therefore, of some benefit to the Indian government. Quite possibly, the funds have also assisted in the development of various sectors of the economy, thereby contributing to raising the national income.

As regards the contribution to employment generated between 1956 and 1969, the impact has been both direct and indirect.

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1. For a general analysis of local currency proceeds see, Alexis E. Lachman, The Local Currency Proceeds of Foreign Aid, OECD, Paris 1968.
2. For details concerning the amounts extended to individual companies see, Fact Sheet 22: United States Economic Assistance, New Delhi, USIS 197o.
3. Until September 1964 the loans from the Rupee Funds carried an interest rate of 3 1/2 to 5 per cent but the loans extended between September 1964 and April 1966 carried a service charge of o.75 per cent only. The loans sanctioned subsequently carried a charge of 1 per cent for the first ten years and 2 1/2 per cent thereafter.

P.L. 48o imports have created a number of jobs at the ports of unloading as well as in the process of transportation of the imports to central storage depots. In addition, directly generated employment opportunities include the jobs at "fair price" shops dealing with the distribution of such imports.[1)]

With regard to indirect employment due to P.L. 48o funds during the Second and Third Five Year Plans, it can be assumed that of the estimated 22 million additional jobs during the period, a part could be attributed to P.L. 48o considering the share of these funds in the total public sector outlays during the two plans.

Balance of Payments

Let us now examine whether the P.L. 48o programme contributed towards decreasing the foreign exchange constraint. When calculating the foreign exchange gain from this programme, it has to be borne in mind that the gross figure of imports under the programme is not wholly assistance. Out of the total rupee funds accumlated through the sale of P.L. 48o commodities, about 13 per cent was retained for the US government uses.[2)] A further 7 per cent of the imported value was set aside for assistance to private sec-

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1. It has been estimated that, taking all these areas together, employment increased from 25.18o in 1956/57 to about 5,oo,ooo in 1965/66. While these figures may be suspect, they are given here only to indicate a probable increase in employment opportunities in the areas which grew to some extent due to P.L. 48o imports. See "Development Through Food" in Eastern Economist, July 1962, and "Impact of P.L. 48o" by Uma Kant Srivatsava in The Economic Times, July 11, 1969.

2. It can be argued that in absence of P.L. 48o imports, India's gross earnings of foreign exchange would have been larger as follows. An average annual import of Rs.1oo crores worth of commodities means Rs. 13 crores for the US government expenditure in India. Assuming this expenditure would have taken place even otherwise, India would have received Rs.13 crores worth of dollars every year, which could have been diverted to import foodgrains. However, the limitations of this assumption and the marginal character of such likely resources are apparent.

tor under the Cooley Amendement. This amount as well as the 13 per cent retained for the US government uses have to be deducted from the total rupee value of the P.L.48o imports to obtain net exchange gain.

If we assume that the entire P.L.48o imports were commercial imports, the gross gain would amount to the total value of the imports from 1956/57 to March 1971. This amounted to Rs. 2.485 crores (based on the prevailing rate of exchange).[1] Rs. 426 crores have to be deducted from this amount to obtain the net exchange gain of Rs. 2.o59 crores.

The value of total imports from 1956/57 to March 1971 was Rs. 2o.6o8 crores[2] and the share of net P.L.48o imports in the total imports was about 1o per cent, i.e. 1o per cent of the total imports did not constitute exchange problem.

This gain in exchange can be seen from another angle. The assumed loss in foreign exchange earnings in the absence of P.L. 48o programme can be seen in relation to the export earnings. The total export earnings during 1956-1971 was valued at Rs. 13.247 crores.[3] If the foodgrains were to be imported through normal channels, the exchange needed for the P.L. imports would have been Rs. 2.o59 crores or about 16 per cent of the total exchange earnings.

It is quite clear that India's exports would not have permitted a diversion of about 16 per cent of the foreign exchange earnings for large imports of foodgrains without seriously her maintenance imports and therby the rate of growth[4]. Taking into account India's meagre foreign ex-

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1. Fact Sheet 23: United States Economic Assistance to India, New Delhi, USIS, 1971.
   The amount does not include imports repayable in convertible currency.
2. Reserve Bank of India, Reports on Currency and Finance for different years.
3. RBI-Reports on Currency and Finance; Government of India, Economic Survey 1971-72, New Delhi 1972.
4. Maintenance imports have a multiplier effect. Therefore reductions in such imports can result in more than proportionate decrease in the rate of growth.

change reserves, it does not appear likely that India could have imported Foodgrains on a large-scale without straining her reserves as well as the economy as a whole.

Money Supply

There has been considerable controversy as regards the impact of P.L.48o counterpart funds on money supply and, consequently, on the general price level.[1)] Before examining the actual impact, it is necessary to get a clear view of the procedure adopted by the Indian government concerning the payment of the commodities imported and other aspects of the tranfers.

Prior to May 196o, on receipt of the information that the commodities were shipped, the Indian government paid the rupee equivalent of the dollar value of the commodities plus fifty per cent of the shipping freight into the US government account with the State Bank of India. The State Bank used to invest these funds mainly in Government of India securities.[2)] However, after May 196o the payments were made directly to the Reserve Bank of India which invested them in special non-negotiable securities carrying an interest rate of 1 1/2 per cent and repayable on demand to the American Embassy.[3)]

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1. See Khatkhate, D.R. and Bhatt, V.V., "Effects of the United States Commodity Assistance to India on Money Supply" in Reserve Bank of India Bulletin, January 1963. For subsequent debates between Prof. Shenoy and Khatkhate and Bhatt see in the columns of The Economic Times, of March 27, 28, 29 and May 9, 1963.

2. According to the Chairman of the State Bank of India, in his speech at the Fourth Annual General Meeting held in February 1959, it would seem that the entire amount of counterpart funds was invested by the Bank in Government of India securities as a matter of policy. However,".... a part of the P.L.48o funds was utilised by the State Bank of India for investment in Treasury bills, and also for extension of credit to the private sector in the initial stages of the accrual ot these funds to the Bank". See "Pattern of Ownership of Government Debt", in Reserve Bank of India Bulletin, January 1963.

3. Ministry of Finance, The Explanatory Memorandum for 1966-67, New Delhi, p. 65

In the first stage the Indian government paid the US Embassy for the imports. The Embassy then deposited these funds with the Reserve Bank of India which invested them in special securities. Thus, by the end of this stage there would be no change in the money supply. In the second stage, the United States encashed these securities for advancing loans to the Indian government, therby converting an unfunded debt into a long-term debt carrying a higher interest. The funds were then spent by the government on various developmental projects in the country. Thus the sales proceeds of the P.L.48o imports would in effect have a contactionary impact on money supply with the public.[1)]

Prof. B.R. Shenoy, however, argued that the imports under the programme were inflationary because they "give rise to two distinct and seperate counterpart funds. Created moneys, i.e. payments for P.L. 480 imports in special securities, represent what we may call the US-owned counterpart fund, as it constitutes the exclusive property of the US government. The proceeds of sales to the public of the P.L.48o imports, the exclusive property of the Government of India, represents the second counterpart funds. We may call this the Indian-owned counterpart fund".[2)] Prof. Shenoy is of the opinion that the US owned fund created inflationary pressure. "Disbursements from the US owned counterpart fund are inflationary, as this fund is built from created moneys". He asserted that the core of the controversy rests on the point whether Budget receipts from P.L. 48o equal the sales proceeds of P.L.48o imports or exceed this sum by the amount of P.L.48o loans and grants. In the latter case the result would be an inflationary pressure. In Shenoy's assessment, budget receipts exceeded

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1. See Khatkhate and Bhatt (January 1963), op. cit.
2. Shenoy, B.R., "Two Counterpart Funds: Measures for Reform", The Economic Times: September 4, 1968
   See also Gujarat University School of Social Sciences, "The Monetary Aspects of P.L.48o Operations". mimeographed (Ahmedabad, July 1965).

the sales proceeds and therefore, the imports had an inflationary impact.

Let us examine the above argument in the light of actual movements of monetary flows.[1] We shall make following assumptions: a) all transactions are completed in the same financial year, b) both the Indian and the US governments start and end their accounts with zero balance and, c) all P.L.48o funds are used by the Indian government only.

Now, as mentioned earlier, in the first stage the Indian government paid rupee equivalent of the dollar value of the P.L.48o imports into the US government account with the reserve Bank of India.[2] The money was raised by sale of treasury bills to the Reserve Bank.[3] At the same time the US purchased special securities for that amount. Accounts of both the governments were thus balanced and there being no time lag, no money was created.

In the second instance, the US government encashed the special securities to extend long-term loans and grants to the Indian government and for the US Embassy uses. According to Prof. Shenoy, it at this stage that money is created because the process of 'retirement' of special securities

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1. Prof. Shenoy in his four articles in The Economic Times, September 1968.
2. The following analysis is based on Khatkhate and Bhatt, "Effects of the United States Commodity Assistance to India on Money Supply" in Reserve Bank of India Bulletin, January 1963 and Government of India, Report of the Group on Monetary Impact of P.L.48o Transactions, known as Khusro Panel Report, December 1968.
3. Suppose the Indian government did not have cash balances to make the initial payment to the US Embassy, it would create treasury bills (ad hocs) and sell them to the Reserve Bank of India to get money for payment. But then the Embassy deposited the receipts with the Reserve Bank which invested them in special securities. Against receipts of the sums Government would cancel the ad hocs. Thus the total effect would be nil.

involves "money creation through the acquisition of public debt by the Reserve Bank of India or commercial banks. It involves, that is to say, deficit financing by the central government to the extent of these final disbursements of P.L.48o funds".[1] But according to the Khusro Panel, no deficit financing was involved as liquid payment to the US government was not required. The process involved only the conversion of unfunded debt into long-term debt and this was performed entirely through book entries.[2] However, if the earlier assumption that the funds are used by the Indian government only is valid, then Prof. Shenoy's argument would hold good for at least that part of the funds used by the American Embassy and under Cooley arrangements.[3] This is so because it required liquid cash and was not mere conversion of unfunded debt into long-term debt.

The next stage is when the commodities were sold to the public and funds withdrawn from general circulation. The Treasury bills sold to raise money in the first stage get redeemed. However, this fund would have already been invested in various projects. Therefore, monetary expansion due to the expenditure before the realisation of the sales proceeds is nullified after the proceeds are realised. In the final end

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1. B.R. Shenoy, "Retirement of Special Securities", The Economic Times, September 2, 1968.

2. For further details of the manner of recording the transactions by the Indian government see, Explanatory Memorandum: General Budget 1961-62, New Delhi 1962.

3. Nabagopal Das has argued similarly. He has stated that the expenditure made from the counterpart fund under the control of the Indian government was replenished by sales proceeds of P.L.48o imports, but no such automatic adjustment exisited for the special fund utilised by the United States. Since the US government was at liberty to use the fund for its own purposes as well as the currency needs of "American tourists, scholars/.../and to give aid to adjoining developing countries", the use of the fund by the US could lead to inflationary conditions by increasing the volume of created money, if the use was not suitably regulated.
See Nabagopal Das, "Foreign Aid as a factor of Economic Growth" in Indian Council of Current Affairs, Foreign Aid: A Symposium, A Survey and An Appraisal, New Delhi 1968, p. 84.

there would be no impact on money supply. The time lag between the accrual of funds and the agreed disbursals and realisation of sales proceeds may have resulted in a short period of inflation. However, since the assumption is that every transaction is completed in the same accounting period, the effect on money supply would be neutral.

Taking the argument a step further, it can be stressed that even a time lag need not have resulted in inflationary pressure in case the sales proceeds exceeded or even equalled the "disbursement of funds accumulated in the previous periods".[1)]

Period I
Transactions - a) Imports Rs. 1oo
b) P.L.48o Loans and Grants Rs. 8o
c) US Withdrawals Rs. 5

Government of India

Receipts	Rs.	Disbursements	Rs.
Sales proceeds	1oo	Payment to the US Embassy	1oo
P.L.48o Loans & Grants	8o		
Investment in Special Securities (2o minus 5)	15	Net surplus	95
	195		195

Period II
Transactions - a) No imports
b) Repayments Rs.1o
c) US Withdrawals Rs.15

Government of India

Receipts	Rs.	Disbursements	Rs.
Sales Proceeds	Nil	Repayments	1o
P.L.48o Loans & Grants	Nil		
Investment in Special securities (1o - 15)	-5		
Net Deficit	15		
	1o		1o

Period III
Transactions - a) No Imports
b) Repayment Rs. 12
c) No Withdrawal

Government of India

Receipts	Rs.	Disbursements	Rs.
Sales Proceeds	Nil	Repayment	12
P.L.48o Loans & Grants	Nil	Net Surplus	Nil
Investment in securities	12		
	12		12

Source: Khusro Panel Report, p. 21

1. Uma Kant Srivatsava, "Impact of P.L.48o Imports on Indian Economy", in The Economic Times, July 11, 1969.

As mentioned earlier each of these periods refers to one financial year. In the first period, out of an initial payment of Rs.100, Rs. 80 are marked for the government and 20 for US uses (including Cooley funds). The contraction of Rs. 100 in money supply is nullified - Rs.95 by Indian government spendings and Rs.5 by the American Embassy withdrawals. There is no impact on money supply. However, the flows may not balance if the imports are sold at subsidized prices or if a part of it is used for creating buffer stock. The result then would be inflationary.

In period II it is assumed that there is no P.L.480 import. Rs.10 are paid by the Indian government and the US Embassy withdraws Rs.15. The result will be a net deficit of Rs.15. Thus the P.L.480 transactions would have a deficit or inflationary impact only in this period, when the Embassy withdrawals are unaccompanied by imports.

In period III, again there are no imports and Rs.12 are paid by India. Moreover, there is no withdrawal by the US Embassy. The impact on money supply would be neutral. Thus it is clear that P.L.480 transactions have not created moneys in the budget. Neither did they create inflationary pressures because the lagged withdrawals of the funds accumulated for American use did not exceed the sales proceeds.[1)]

The contention that the imports created two counterpart funds is not tenable either. If there are two seperate and distinct funds why should a credit entry of one fund become the debit entry of the other? Since this was so, the funds are not seperate and distinct funds but two phases of the same account.

Although the effect of P.L.480 transactions on money supply may be said to have been neutral, the fact that large quantities of foodgrains were made available cushioned the impact

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1. Ibid.
   See also Rajendra Kumar, "Disinflationary Aspects of P.L.480 Imports in India". in Indian Economic Journal, Vol. XV, July 1967, pp. 101-106.

of net deficit financing by the Indian government on the food sector.

Price Level

As mentioned earlier, one of the primary reasons for India to enter into P.L.48o agreements was to control the price of foodgrains. Prices of foodgrains were vital to the success of planned economic development in India. Severe shortages and high prices had been more or less a regular feature of the economy. While the prices of cereals declined by 24 per cent during 1952-56, they increased subsequently by about 33 per cent. The purpose of the imports under P.L.48o programme was not only to prevent such sharp fluctuations but also to check any excess pressure on the general inflationary forces on the cereal prices resulting from the slower rate of increase in the production of cereals than of other commodities in the Indian economy.

Since the beginning of the Second Five Year Plan in 1956, the Indian economy has been subject to both increasing investment expenditure and evergrowing budgetary deficits. The money supply during the Second and Third Plans increased by 3o and 36 per cents respectively while the supply of goods rose by 18 and 13 per cents only. The increase in National Income at current prices during the two plans was 37 and 5o per cents only. The results of the inflationary pressures generated in the economy are apparent in these figures.

We shall now examine the price trends of various cereals and other commodities during the period under study.

It can be seen from the table that the prices of cereals (rice, wheat and jowar) dropped substantially between 1953/54 and 1955/56. Subsequently, however, the cereal prices exhibit considerable divergence. By 1957/58 the price of rice had risen from the low levels of 1954-56 and the price of Jowar had recovered a year earlier. The price of rice fluctuated between 1o5 and 111 during 1957-62 but rose subsequently, The jowar price was somewhat more unsteady during 1956-1964

fluctuating between 1o5 and 13o. The pulses show a marked increase from 1961 onwards.

Table 22

Price Indices of Selected Commodities

Base 1952/53=1oo

Years	Rice	Wheat	Jowar	Pulses	Food articles	All commodities
195o/51	94	95	91	92	112.5	112
1951/52	1o4	94	97	-	111	118
1953/54	1oo	93	1oo	-	1o7	1o5
1954/55	82	75	77	-	95	97
1955/56	78	72	67	62	87	92
1956/57	96	88	122	-	1o2	1o5
1957/58	1o5	88	114	-	1o6	1o8
1958/59	1o6	1o5	1o5	-	115	113
1959/6o	1o5	96	119	-	119	117
196o/61	1o8	9o	122	93	12o	125
1961/62	1o5	91	113	92	12o	125
1962/63	111	9o	13o	1o5	126	128
1963/64	125	99	116	115	137	135
1964/65	134	13o	189	165	16o	153
1965/66	141	138	197	162	169	165
1966/67	173	158	199	197	2oo	191
1967/68	2o6	185	227	278	242	212

Source: Ministry of Food and Agriculture, Bulletins on Food Statistics and Reserve Bank Of India, Report on Currency and Finance for the Year 1967-68, Statement 12.

The price of wheat, however, shows a completely different trend. Wheat constituted some 75 per cent of the total imports under P.L.48o. Issue of imported wheat under P.L.48o came to form about 25 to 3o per cent of the total domestic availability of wheat. The price of wheat remained steadier than the prices of cereals. Between 1956 and 1964 the wheat price stayed around 9o exept for 1958/59 when it was 1o5. The price did increase after 1964 but not to the same extent as the prices of other cereals and pulses which did not come under P.L.48o imports.

Prices of food articles increased faster than the prices of all commodities but this is a result of large increases in the price of those cereals and food articles not included in P.L.48o imports. Therefore, it can be rightly argued that in the absence of imports under P.L.48o the prices of cereals and other food articles would have increased further and consequently the general price index would have touched a new high because food articles have a weight of 5o4 out of a total of 1ooo. Thus, the imports did very probably contain the upward trend in prices [1] and thereby allowed the development programmes to be undertaken in less inflationary conditions.

Consumption Level

Import of foodgrains under P.L.48o contributed towards increasing the consumption of cereals in India. The increase in cereal consumption added to the calorie intake which rose from 185o in 1956 to 2o2o in 1961 and to 218o in 1964 per capita per day.[2] Even though this was below the re-

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1. In an econometric study of the direct impact of P.L.48o in India, Mann supports the view that the programme had a depressing effect on cereal prices. He estimated that an increase in per capita import of cereals under P.L.48o of one pound (219,995 metric tons with an estimated population of 285 million in 1962) resulted in a o.54 drop in cereal prices in the same year. See Jitender Mann, "The Impact of P.L.48o Imports on Prices and Domestic Supply of Cereals in India", Journal of Farm Economics, Vol. 4 ', February 1967, pp. 131-146.
   Theodore Schultz was one of the leading and earliest exponents of the view that disposal of surplus commodities in the developing countries has a tendency to affect agricultural production adversely as well as investment and saving in the agricultural sector through downward pressure on prices. See Theodore Schutz, "Value of US Farm Surplus to Underdeveloped Countries". Journal of Farm Economies, Vol. XLII, December 196o.
   Elridge is also of the opinion that the food imports under P.L. 48o contributed significantly to the stabilisation of foodgrain prices in India. See The Politics of Foreign Aid, London 1969, pp. 112-13. See also S.R. Sen, :Impact and Implications of Foreign Surplus Disposal on Underdeveloped Countries- the Indian Perspective", Journal of Farm Economics, Vol. 42, 196o, pp. 1o31-42 and M.L. Dantawala, "International Planning to Control the Scourge of Hunger throught the World", Annals of Collective Economy 34 (1963) pp. 71-96.

2. Statistical Year Book, 1966, p.499. P.L.48o supplies resulted in an increased per capita consumption of wheat in all states.

commended level needed for increasing the productivity of labour, there was a relative increase in labour productivity as a result of higher calorie intake.[1)]

Table 23

Per Capita net Availability of Foodgrains

Year	Population (millions)	(grams per day) Cereals	Pulses	Total
1951	363.4	334.1	6o.8	394.9
1956	397.8	36o.1	7o.5	43o.6
1961	442.7	398.7	69.1	467.8
1962	453.1	4oo.7	62.4	463.1
1963	463.9	382.4	59.6	442.o
1964	475.2	398.2	5o.7	448.9
1965	486.8	414.8	61.1	475.9
1966	498.9	355.9	47.8	4o3.7
1967	511.3	356.9	39.1	396.o
1968	524.1	396.9	55.2	452.1
1969	537.2	39o.9	46.5	437.4
197o	55o.6	394.3	5o.9	445.2
1971	564.2	4o7.6	49.2	456.8

Source: Government of India, Economic Survey 1971-72, New Delhi 1972, p. 98.

The availability of cereals increased slightly until 1965. The sudden drop in cereal availability in 1966 and 1967 was due to the severe drought in 1965, 1966 and part of 1967. The situation, however, improved subsequent to 1967. The availability of pulses, which are not imported under P.L.48o, show, on the other hand, a more or less declining trend.

1. Increased consumption can undoubtedly improve productivity and thus raise GNP level. Higher food consumption also implies improved nutrition standard and thus contributed to overall development.
See Gunnar Myrdal, Asian Drama, New York 1968 and Simon Kuznets, Modern Economic Growth, New Haven 1966. See also Alan Berg, "Nutrition Objectives" in Gerald Meier, Leading Issues in Economic Development, New York, Third Edition 1976.

Table 24

Per Capita Availability of Wheat 1955/56-1961/62

Year	Production in 1ooo Metric Tons	Net Imports in 1ooo Metric Tons	Prod. as % of availability	Per Capita availability
1955/56	9147	331	98.1	24.1
1956/57	887o	1617	84.9	26.5
1957/58	95o6	3o3o	81.5	29.o
1958/59	8oo5	3o46	69.8	27.9
1959/6o	9958	3314	75.7	31.2
196o/61	1o249	4327	77.5	31.4
1961/62	1o992	2826	77.o	32.o

Source: Bulletin of Food Statistics, Ministry of Food and Agriculture. Quoted in Patavardhan and Rath: Impact of Assistance under P.L.48o on Indian Economy (1967), p. 1o3.

Consumption of wheat increased by about 25 per cent during 1956-1962. There was no significant increase in total consumption during the First Plan. This was due to the fact that the large imports of wheat in this period were meant to supplement low levels of production. The really significant increase in the consumption of wheat took place after 1956 when imports under P.L.48o began. Availability of wheat between 1955/56 and 1961/62 increased by almost 5o per cent. This was, however, mainly due to increased imports rather than higher domestic production. Imported wheat constituted about 2 per cent of the total available in 1955/56, while in 1961/62 it was more than 22 per cent of the total. In fact, of the total quantity of wheat available during 1956-7o - about 2oo million tons, approximately 25 per cent or 49 million tons[1)] came from the US under the P.L.48o programme.

It can be noted that the imports added to increased productivity and calorie intake. This was so because these imports were mainly consumed by those population groups whose diet would otherwise have been poor and frugal. Because of the

1. For the quantities of wheat and other commodities imported under the programme see Fact Sheet 22: United States Economic Assistance To India, New Delhi, USIS 197o.

price differential between open market prices of wheat and the fair price shops, there was an increasing diversion of demand to the fair price shops.[1] Wheat became a substitute for millets and other minor cereals because its price in fair price shops was lower than the price of millets and other cereals in the open market.

Production of Cereals

P.L.48o has been criticised as having had negative impact on India's development efforts. Indiscriminate use of the imports at low prices is said to have made P.L.48o imports a normal part of total consumption on the one hand and its easy availability is claimed to have made the Indian government complacent i her drive for increased domestic production, on the other. It has been argued that positive responses of the farmers to relative price depression of wheat might have resulted in a shift of acreage and resources from wheat production to other crops. In the following we shall briefly see whether these assertions were correct.

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1. Price at fair price shops until January 1965 was Rs.4o per quintal and for the following years the price was between Rs.55 and 65 per quintal until 197o. The price of indigenous wheat on the open market was up to sixty per cent higher than the imported wheat sold at the fair price shops. Imported wheat was only an 'inferior' substitute to indigenous wheat. This is apparent from the fact that a large number of fair price shop customers belonged to low income groups, which is indicated by the data regarding the number of fair price shop card holders in Greater Bombay. For example, in 1962 about 55 per cent of the cardholders had an income below Rs,1oo and 32 per cent had incomes between Rs.1o1 and 25o. The figures were slightly lower for 1965. See Patavardhan and Rath (1967), op. cit.
See also Development Assistance Committee, 1974 Review Development Cooperation, Paris: OECD 1974, p. 94.

The following table gives the production indices of some cereals.

Table 25

Index of Cereal Production (1952/53=1oo)

Year	Rice	Wheat	Jowar	Bajra	Maize
195o/51	91	89	84	88	68
1951/52	93	83	9o	8o	82
1952/53	1oo	1oo	1oo	1oo	1oo
1953/54	123	1o6	1o9	142	1o6
1954/55	1o9	119	124	112	1o4
1955/56	117	116	91	114	91
1956/57	124	125	98	95	1o8
1957/58	1o8	1o3	112	118	1o8
1958/59	132	13o	119	127	1o9
1959/6o	127	13o	1o7	117	117
196o/61	142	114	132	118	119
1961/62	146	158	1o7	12o	125
1962/63	137	142	131	13o	134
1963/64	151	13o	123	127	132
1964/65	16o	161	131	146	136
1965/66	126	136	1o2	123	14o
1966/67	125	15o	124	147	142
1967/68	155	217	135	17o	182
1968/69	162	229	132	125	162

Source: Reserve Bank of India Report on Currency and Finance for various years

There was a considerable increase in cereal production during 1952-1955. But this level was not maintained in all cases in the subsequent years but, in general, the production had shifted to a higher level as compared to the years before 1953/54. Following 1956/57 when the P.L.48o imports began,mainly of wheat, the production of wheat increased rather slowly as compared to the increase in rice production. It may be of interest to look into the sources of increased production.

The following table shows the trends in acreage of some cereals. After 1955/56 only three cereals. Wheat, rice and maize registered any increase in the area of cultivation. While the under rice and maize cultivation increased more or less steadily, the wheat acreage shows a peculiar trend. Between 1950/51 and 1955/56 the wheat acreage increased by about 27 per cent, mostly due to a substantial rise in 1955/56. In the following years, except for 1957/58 the acreage retained a relatively steady level around 13 million hectares but then declined in 1964/65 and 1965/66. The acreage increased again in the following year, a rise which can be attributed, in part, to the High Yielding Varieties programme of the Indian government.

Table 26

Area Under Cultivation for some Cereals

(1955/56=100)

Year	Rice	Wheat	Jowar	Bajra	Maize
1950/51	97	79	89	82	88
1955/56	100	100	100	100	100
1956/57	102	109	94	99	102
1957/58	102	96	98	97	107
1958/59	104	102	99	100	114
1959/60	106	106	98	95	117
1960/61	108	105	106	101	119
1961/62	110	110	105	99	122
1962/63	111	110	104	95	125
1964/65	114	109	103	103	125
1965/66	112	102	102	106	130
1966/67	112	104	104	108	137
1967/68	116	121	106	113	151
1968/69	117	129	108	106	155
1969/70	119	134	107	110	156
1970/71	119	145	100	114	158

Source: Reserve Bank of India, Reports on Currency and Finance for various years.

If there was a slow increase in wheat production and acreage relative to that of rice over a long period, it was more due to the policies of the Indian government than any other reason. Since the shortage of rice sould not be made good by imports under P.L.48o programme, the Government made special efforts in this field. "There is evidence of lack of sense of urgency. In general the needed structural and technological changes in agriculture and the large supply of inputs have not been undertaken at an urgent pace. Specially in foodgrains, the relatively greater attention to rice than to wheat is an indication that large P.L.48o supplies have created a sense of relaxation".[1] According to Lester Brown, one Indian government official, when urged in early 1965 to build food reserves in India as a hedge against possible crop failures, replied, "Why should we bother? Our reserves are in the wheat fields of Kansas".[2] Thus, the supply of

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1. Patavardhan and Rath (1967), op. cit., p. 2o2.
   Isenman and Singer believe that "the political and economic factors which caused the preference for heavy industry over agriculture were more powerful than food aid which, at most, played a supportive role". While this may be so, it is quite possible that in the absence of massive food aid, Indian political leaders may have had different ideas concerning priorities.
   See Paul J. Isenman and H.W. Singer, "Food Aid: Disincentive Effects and Their Policy Implications", in Economic Development and Cultural Change, Vol. 25, January 1977.

   For an analysis of the impact of P.L.48o wheat supplies on domestic production and prices of wheat in Colombia see, L. Dudley and R.J. Sandilands, "The Side Effects of Foreign Aid: The Case of Public Law 48o Wheat in Colombia", in Economic Development and Cultural Change, Vol. 23, January 1975, pp. 325-326.

   In Colombia wheat imported under P.L.48o (and from commercial sources but sold at subsidized price, because of an overvalued exchange rate) increased from about 5o per cent to about 9o per cent of total wheat consumption 1953-1971. The support price for wheat declined by about half (in constant prices) over this period. Wheat production declined very sharply to about a third of its initial level.

2. Lester Brown, Seeds of Change: The Green Revolution and Development in the 7os, New York, 197o, p. 6.

wheat under P.L.48o may have largely been responsible for lack of a vigorous policy as regards acreage and production of wheat.[1)]

It can be said that the early availability of certain commodities under P.L.48o contributed, to a large extent, for providing a lever to keep the food prices[2)] in check while allowing the prices of agricultural inputs and some consumer goods to rise. This did not encourage the farmer to increase the production in particular foodgrains. It has, however, been argued that responsiveness of the agricultural sector to economic incentive is relatively less[3)]. Increased prices for agricultural products, therefore, would not have brought about a proportionate increase in output but rather would have served to transfer income from the more modern sectors to agriculture and from investment to consumption".[4)] It should also be noted that even prior to the P.L.48o programme, India used to import foodgrains

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1. For many years, a supporting price for sugarcane attracted considerable acreage of irrigated land under wheat for cane production. The increase in acreage under wheat from 1967 (as well as under rice cultivation) was a part of High Yielding Varieties Program. As a consequence of this programme, the yield per hectare increased from 887 kgs, in 1966/67 to 11o3 kgs. in 1967/68, 1169 kgs. in 1968/69 and to 12o9 kgs, in 1969/7o. In case of rice the yield per hectare rose from 863 kgs, in 1966/67 to 1o73 kgs. in 1969/7o. This was a part of the "Green Revolution".

2. A simple linear correlation between the price and production for wheat and rice gave the following results. With no lag, the correlation coefficients were o.39 for rice and - o.45 for wheat. With a lag of one year the corresponding values were o.78 for rice and o.79 for wheat. The production and price data used are given in tables 25 and 22 respectively.

3. Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries, Oxford 1964, p. 36.
See also Gary L. Seevers, "An Evaluation of the Disincentive Effect Caused by P.L.48o Shipments", American Journal of Agricultural Economics 5o (1968), pp. 64o-41.

4. S. Stanley Katz, External Assistance and Indian Economic Development, Bombay 1968, p. 51.

spending considerable amount of foreign exchange. "Pl.L.48o imports only substituted for those costly imports".[1)]

Some concluding remarks

India embarked upon planned economic development in 1951 with the aim of providing her citizens better conditions of living. Surplus commodity aid under P.L.48o was made available to India at a time when she started to feel the strains of the developmental efforts, particularly on the food front. The inflationary pressures generated in the economy could not have been contained with the help of domestic production alone, which had not been increasing steadily and rapidly.

P.L.48o programme played an important role not only in reducing overall inflationary impact of deficit financing in Indian plans but also in keeping the foodprices under check as well as making a contribution to increasing the quantity foodgrains available for a higher per capita cereal consumption. "P.L. 48o supplies have helped considerably to mitigate shortages in the economy and to give protection to a large and vulnerable section of population...prices of wheat...have been prevented from skyrocketing even in the years of severe shortage".[2)] The programme also provided substantial additional resources for investment and saved some foreign exchange being spent on imports of foodgrains.

On the other hand, there is some evidence that the imports under P.L.48o "masked the necessity for, and actually deferred the initiation of significant measures to increase Indian agricultural output".[3)] While some feeble efforts

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1. C.D. Desmukh in his Per Jacobsson Foundation Lecture in 1965, Washington, D.C.

2. S.R. Sen, "Impact and Implications of Foreign Surplus Disposal on Underdeveloped Economies: The Indian Perspective", Journal of Farm Economics, Vol. 42, 196o. Mann has argued that since P.L. imports were only partially upset by the decline in domestic supply, they made a positive contribution to filling the food gap. See Jitender Mann, "Impact of P.L.48o Imports on Prices and Domestic Supply of Cereals in India", op. cit.

3. Stanley Katz (1968) op. cit., p. 53

had been comprehensive program for increasing agricultural output came only as a result of the severe crop failures of 1965-66".[1] Thus, the easy supply of commodities under P.L.48o, in particular wheat, was largely responsible for the lack of a vigorous agricultural policy until the middle of the 196os.[2] Moreover, it is quite possible that the imports under P.L.48o were, to some extent responsible for distortion of priorities and misallocation of resources since in the absence of such imports more resources would probably have been diverted to the agricultural sector.

While P.L.48o programme very probably contributed towards keeping India afloat through times of crisis and stabilised food prices, it was a politically controversial programme. The United States was suspected to have used food imports to provide herself with political leverage concerning cer-

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1. Ibid., p. 53.

2. Streeten and Hill also hold this view: "US surplus food, available almost for the asking in the years of good harvest as well as bad, undermined India's determination to tackle its agricultural problem seriously". India reduced the share of investment in agriculture and did not have a sufficiently strong policy to get trained personnel into rural areas. See Streeten and Hill, "Aid to India", in Paul Streeten and Michael Lipton (eds), The Crisis of Indian Planning; Economic Policy in the 196os, London 1968, p. 342.

   Nurul Islam has stated that, in case of Pakistan, the availability of P.L.48o wheat contributed to successful operations of buffer stocks in foodgrains, which were used not only to stabilise prices but to provide incentives for increased agricultural production. P.L.48o supplies are indirectly used to stimulate agricultural production. He does not, however, deny the possibility that the easy availability of P.L.48o foodgrains could have slackened domestic efforts for agricultural development. According to him, "this possibility was, however, forestalled by a decline in the surplus supplies of wheat in the United States as well as a hardening of the terms of P.L.48o assistance".

   See Nurul Islam, "Foreign Assistance and Economic Development: The Case of Pakistan", in The Economic Journal, Vol. 82, March 1972, p. 524.

tain policy issues. The accumulation of rupees by the US was a point of tension as well.[1] The American use of their retained share of counterpart funds caused fierce debates in the Indian parliament. Tighter controls over the use of these funds were demanded due to fears of foreign exchange lossess on invisible account.[2]

Despite the some beneficial aspects of P.L.480 imports for India, it cannot be overlooked that the programme undermined India's determination to tackle the agricultural problems and was largely responsible for the lack of a vigorous agricultural policy in India until the mid-sixties. Subsequently, however, there was a change in the agricultural policy with emphasis on the new high-yielding seed varieties as well as on expansion and improvement of other agricultural programmes. This reorientation of Indian agricultural policy was partly due to political resentment in India about American food aid which seemed to undermine India's political and economic autonomy. It was also due to Johnson's 'short-tether' policy during the severe drought years 1965 and 1966, under which the food shipments were delayed in order to apply pressure on India for a combination of developmental and political motives.

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1. A part of these funds is supposed to have been used to finance the American lobby and CIA activities in India for subverting India's democratic set-up, policy of peace and non-alignment. See Ajit Roy, Economics and Politics of US Foreign Aid, Calcutta 1966.

   The programme was highly controversial in Pakistan as well. It has been claimed that much of the money spent upon propaganda by the USIS in Pakistan came from the counterpart funds from the sale of commodities provided under P.L.480 (and the Mutual Security Act).
   See Hamza Alavi and Amir Khusro, "Pakistan: The Burden of US Aid" in Robert Thodes (ed), op. cit.

2. V.K.R.V. Rao and D. Narain, Foreign Aid and India's Economic Development, London 1963, pp. 85-86.

Chapter VIII

American Assistance and Trade

India considers external assistance as a means of meeting her excess import bills. As we have already mentioned, the United States is the major contributor of such assistance. In the following pages we shall attempt to analyse the contribution of US assistance to Indian exports and imports. In the analysis of the US contribution to Indian imports, the following aspects have been taken into account: a) the total volume of imports, b) the trade gap, c) the incremental volume of imports and the incremental level of imports. In the analysis of the impact of American assistance on exports, only the assistance utilised has been taken into account.

a. The volume of Imports

Table 27

Share of American Assistance in the Total Volume of Imports 1951-1969

(in Rs. Crores)

Period	Total Imports (c.i.f.)	Total Extern. assist.	US assist.	Tot.assist. as % of tot.imp.	US assist. as % of tot. imp.
First Plan 1951-1956	3615	195	135	5.35	3.7o
Second Plan 1956-1961	4924	143o	784	29.2o	16.oo
Third Plan 1961-1966	62o4	2869	168o	46.3o	27.1o
Annual Plans 1966-1969	5814	2655	15o4	45.7o	25.9o
Total	2o557	7149	41o3	34.8o	2o.oo

Sources: Government of India, Economic Surveys for various years: The Five Year Plans and Reserve Bank of India, Reports on Currency and Finance for various years.

The table shows the increasing share of external assistance in the total volume of Indian imports which were positively correlated with the increase in GNP. Contribution of external assistance during the First Five-Year Plan is not significant, but there is a marked upward shift during the Second Plan period. This upward trend continued and increased to about 46 per cent during the Third Plan. It remained at about the same level during the Annual Plan period. Taking the whole period into consideration, external assistance's share was 34.8 per cent. As can be seen from the table, the share of the United States was 3.7 during the First Plan, 16.o during the Second Plan, 27.o per cent in the Third Plan. The share of the US assistance in the total import bills during the Annual Plans was 25.9 per cent. Over the whole period the share was 2o per cent.

b. The Trade Gap

The following table shows the extent of the gap financed by external assistance in general and by the American assistance in particular.

Table 28

External Assistance and Export-Import Gap 1951-69

(in Rs. crores)

Period	Imp. c.i.f.	Exp. f.o.b.	Trade Gap	Tot. assist.	US assist.	Tot. assist. as % of Gap	US assist. as % of Gap
First Plan	3615	3o44	571	195	135	34.o	23.6
Second Plan	4924	3118	18o6	143o	784	79.2	43.4
Third Plan	62o4	3761	2443	2869	168o	117.4	68.7
Annual Plan	5814	3646	2168	2655	15o4	122.4	69.3
Total	2o557	13569	6988	7149	41o3	1o2.3	58.7

Sources: Government of India, Economic Surveys for various years: the Five Year Plans and Reserve Bank of India, Reports on Currency and Finance for various years.

During the First Plan 34 per cent of the trade deficit was financed by external assistance. The US contribution was 23.6 per cent. The corresponding figures for the Second Plan were 79.2 per cent and 43.4 per cent respectively. The gap during the Third Plan was record high - Rs. 2869 crores. External assistance not only covered this gap entirely but also helped the deficits int the balance of payments on other accounts to the extent of about 78 per cent.[1] The US assistance contributed 68.7 per cent towards covering the excess import bill during this period.

External assistance exceeded the trade gap during the annual plans as well and left a balance of Rs. 21 crores after covering the entire deficit in the balance of payments.[2] The US contribution towards covering the gap amounted to about 69 per cent. Thus in the absence of external assistance, India would probably not have been in a position to import to the extent required by the economy.

c. The Incremental Value and Level of Imports

If Indian imports had continued at the 1950-51 level of Rs.650 crores, the total value of imports between 1951-69 would have been 11,700 crores of rupees. The actual value of imports, however, was Rs. 20557 crores. Thus, the incremental value of imports during the period under study was Rs.8857 crores. External assistance contributed as much as 80.7 per cent to this incremental value. American contribution amounted to 47.5 per cent. The national income increased at the annual rates of 3.5, 4.0 and 2.9 per cent during the First, Second and the Third Plans respectively at 1948-49 prices.

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1. See table 6.3, pp. A54-55, Economic Survey 1967-68. According to this table the annual average overall deficit during the Third Plan was about Rs.605 crores or 3026 crores totally. The trade gap being Rs.2443 crores, other deficits amount to Rs.583 crores of which Rs.454 crores came from external assistance.

2. Figures up to December 1968 show a total deficit of Rs.2634 crores during the Annual Plans and the external assistance up to March 1969 totalled Rs.2655 crores. See Government of India, Edonomic Survey 1971-72, pp. 128 ff.

For the calculation of incremental level of annual imports, annual average of imports during the First Plan and annual average of imports during the Annual Plans have been compared. Similarly, the annual average of external assistance during the First Plan and annual average of the assistance utilised during the Annual Plans have been compared. Incremental level of the US assistance is calculated in the same way.

We can see from the table that external assistance as a whole financed nearly 7o per cent of the incremental level of annual Indian imports during 1951-69. The American share was 39 per cent. In the absence of external assistance, and in particular American assistance, the Indian imports would not have increased at such a high rate.

Table 29

Share of American Assistance in the Incremental Level of Indian Imports 1951-69

	(in Rs.Crores)
1. Level of imports in the First Plan	723
2. Level of imports in the Annual Plans	1938
3. Incremental level of imports (2-1)	1215
4. Level of external assistance in the 1st Plan	39
5. Level of external assistance in Annual Plans	885
6. Incremental level of external assistance (5-4)	846
7. Level of US assistance in the 1st Plan	27
8. Level of US assistance in Annual Plans	5ó1
9. Incremental level of american assistance (8-7)	474
1o. 6 as per cent of 3	69.6 per cent
11. 9 as per cent of 3	39.o " "

Source: Table 28, page 14o.

Indian's Trade with the United States

The volume of Indo-American trade before the Second World War was quite small. In 1938/39 Indian exports to the US amounted to about Rs.13.9 crores and the imports from the US stood at Rs.9.8 crores. During the War, however, there was a striking increase in India's trade with the US. For instance, the import from the US in 1944 stood at Rs. 39.1 crores and the export from India was valued at Rs.48.2 crores.[1)]

In 1951 when the First Plan was launched and the United States entered the field of external assistance, the volume of exports to and imports from the US increased substantially as compared to 195o. The exports and imports for 195o were Rs.1o2.5 crores and Rs.1oo.7 crores respectively. In 1951, the corresponding figures were Rs.137.5 crores and 2o1.4 crores.[2)] The record increase in the imports was, however, mainly due to food imports under the Wheat Loan of 1951. There was a declining trend during 1952-55. After 1955 the trend imports began to rise again and one of the main reasons for the upward trend was the food imports under P.L.48o. As regards the exports, there was a slow increase after 196o. One feature of Indo-US trade that can be noted is that the volume of imports from and exports to the United States is positively correlated to the volume of American assistance to India. The exports and imports have also changed in the same direction as the fluctuations in American assistance to India.

We shall now consider the variations in the Indo-US trade in relation to the variations in total Indian foreign trade.

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1. Reserve Bank of India, Report on Currency and Finance for the Year 1944-45, Bombay 1945, pp. 27-28.
2. RBI, Report on Currency and Finance for the Year 195o-51, p. 23o, and for the Year 1951-52, p.241.

Table 3o

Variations in Indo-US Trade and in India's Total Foreign Trade 1951-69

Variation in per cent

Years	total imports	imports from US	US assist.	total exports	exports to US
1951/52 to 1955/56	19.1	-69.8	-8o	1.3	-34
1955/56 to 196o/61	45.o	67	187o	5.4	17
196o/61 to 1965/66	25.6	6o	54	25.5	44
1966/67 to 1968/69	-1o.6	-34	-15	17.5	6
1951/52 to 1965/66	5o.o	77	5oo	1o.o	12
1951/52 to 1968/69	97.o	94	4oo	85.o	8o

Source: Government of India, Economic Surveys for various years and RBI, Reports on Currency and Finance for various years.

The table reveals some interesting trends. While variations in imports from and exports to the United States have followed a similar pattern as total Indian imports and exports during 1955/56-1968/69, it should be noted that during the same period total Indian imports varied from 45 to -1o. In comparision the US imports varied from 267 to -34. In the Indian aim to reduce the trade gap by affecting a reduction in imports the variations in the imports from the United States fit in rather well. As regards the exports, Indian export to the US declined during the First Plan while the total exports showed a marginal increase. During the Second and Third Plan periods, however, the increase in exports to the US was considerably more than the increase in total exports.

After the devaluation in 1966, there was a decline in the rate of increase in exports to the US as compared to the rate of increase in total exports. Thus, it can be said that except for the First Plan period the US trade with India corresponded well with India's total foreign trade.

Table 3o shows that the variation in Indo-US trade broadly followed the variation in American assistance to India. While external assistance from the US decreased by about 8o per cent during 1951/52-1955/56, the exports to the US declined by 34 per cent whereas the imports fell by nearly 7o per cent. During the Second Plan period the US assistance to India showed an enormous increase. The decrease in imports from the US was 67 per cent and the export increase only 17 per cent. The variations in external assistance and trade during the Third Plan are rather similar. In the postdevaluation period, the US assistance to India decreased by 15 per cent but the exports to the US showed a tendency to increase.[1)]

If we consider the period 1951/52-1965/66, the US assistance increased by 5oo per cent but the rise in the exports was only 12 per cent. The imports from the US increased by 77 per cent during the same period. Considering the whole period under study, the variation in the US assistance was

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1. The increasing trend in exports after 1966 mainly reflected the impact of various promotional measures undertaken by the Indian government in 1966. These measures included adjustments in export duties, enlargement of cash assistance strengthening of credit arrangements for exports, etc. RBI, Report on Currency and Finance for the Year 1967-68, Bombay 1968, p. 33. For a discussion of India's export policies see, J. Bhagwati and P. Desai, India: Planning for Industrialisation, London 197o.see also, Charles Staelin, "Indian Export Incentives", in Indian Economic Journal, Vol. XXI, Oct.-Dec. 1973, pp. 1o7-123.
   The increasing trend in exports (and the relative decreasing trend in external assistance) raised hopes in India that the long-term objective of financing the required imports by means of her exports could be reached in a near future. But in 1971/72, for instance, the rate of growth of exports slackened considerably. The decline in exports was attributed to "several adverse factors after July 1971, such as the floating of the world's major currencies, additional tariff barriers in countries like the USA and the Indo-Pak war of December 1971".
   See RBI, Report on Currency and Finance for the Year 1971-72, Bombay 1972, pp. 156-57.
   For an excellent study of Indian exports see, Manmohan Singh, India's Export Trends, Oxford 1964.

4oo per cent and in the exports to the US it was 8o per cent. However, this compares well with the 85 per cent increase in the total export during the whole period. Thus, over the whole period the variation in Indian imports to the US was 97 per cent and in her exports 8o per cent.

Let us now examine the balance of trade between India and the United States. We shall consider the balance of trade in two ways: firstly, the trade balance effected between India and the US without separating the P.L.48o imports from the total imports and, secondly, after deducting the P.L.48o imports (because the imports under this programme did not involve any foreign exchange transactions).

Table 31

Indo-US balance of Trade 1951-69

(in Rs. Crores)

Period	Imports	Exports	Balance	P.L.48o imports	Net balance
195o/51	295	133	- 132	-	- 132
1951/52	182	112	- 7o	-	- 7o
1952/53	79	91	+ 12	-	+ 12
1954/55	82	89	+ 7	-	+ 7
1955/56	89	87	- 2	5	+ 3
1956/57	1o5	91	- 14	51	+ 37
1957/58	166	88	- 78	115	+ 37
1958/59	169	86	- 83	93	+ 1o
1959/6o	2o9	96	- 113	97	- 16
196o/61	327	1o2	- 225	187	- 38
1961/62	259	116	- 143	88	- 55
1962/63	346	115	- 231	123	- 1o8
1963/64	449	129	- 32o	185	- 135
1964/65	51o	146	- 364	218	- 146
1965/66	525	148	- 377	239	- 138
1966/67	782	219	- 563	324	- 239
1967/68	776	226	- 57o	31o	- 26o
1968/69	575	233	- 342	84	- 258

Sources: Director General of Commercial Intelligence and Statistics (Calcutta), Report on Currency and Finance for the Year 1968-69, Bombay and Government of India, Economic Surveys for different years.

The early years of the First Five Year Plan showed unfavourable balance of trade mainly due to heavy imports of wheat to meet the difficult food situation in 1950/51 and 1951/52. The remaining three years experienced a rather favourable trade balance. However, barring the first three years of the Second Plan, the rest of the period experienced increasing unfavourable trade balance whether including or excluding the P.L.480 imports. Throughout this period, the deficit in the trade balance exhibited an upward trend.

American share in India's exports was around 15 to 18 per cent throughout the period under study. Her share in India's imports, however, registered a substantial increase from about 13 per cent to roughly 37 per cent in the same period (see table below).

Table 32

Direction of India's Foreign Trade 1951-1969

Countries	1951/52		1955/56		1960/61		1965/66		1968/69	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
a. U.S.A.	17.8	30.4	14.6	13.2	15.8	29.2	18.3	38.0	17.2	30.0
b. U.S.S.R.	-	-	0.5	0.9	4.5	1.4	11.5	5.9	10.9	10.0
c. U.K.	25.5	17.6	27.8	25.4	27.0	19.3	18.1	10.7	14.8	6.6
d. Japan	2.0	2.6	5.2	4.9	5.5	5.4	9.3	6.0	11.6	6.0
e. W.Germany	1.3	3.0	2.5	8.9	3.0	10.9	2.3	9.8	1.9	6.3

Sources: Planning Commission, Basic Statistics Relating to Indian Economy 1950-51 to 1958-59 and RBI, Report on Currency and Finance for the Year 1970-71.

The share of the Soviet Union in India's foreign trade was very small during the First Plan but subsequently increased more or less continuously to reach nearly 11 per cent in exports and 10 per cent in imports. While the US assistance programmes effected a rise in Indian imports, there appears to have been limited desire to purchase more and more from India. It is also interesting to note that the United Kingdom's share in India's exports and imports decreased from 27.8 and 25.4 in 1955/56 to 14.8 and 6.6 per cent respectively in 1968/69.

programmes effected a rise in Indian imports, there appears to have been limited desire to purchase more and more from India. It is also interesting to note that the United Kingdom's share in India's exports and imports increased from 27.8 and 25.1% in 1955/56 to 1.3 and 4.4 per cent respectively in 1968/69.

American Assistance and India's Terms of Trade

The prices of commodities traded between India and many industrialized countries have been a matter of criticism for some years now. It has been frequently asserted that the prices of the commodities imported and exported are, generally not determined by the free play of demand and supply but charged arbitrarily. India being a debtor nation has had to import at higher prices and export at lower prices.[1] In the following we shall see whether this has been so in the case of Indo-US trade. The following table shows the export and import unit value indices and terms[2] of trade during the period 1951/52 to 1968/69, together with Plan averages.

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1. C.N. Vakil, The Devaluation of the Rupee, Bombay 1966, p. 29.

2. The concept of net terms of trade used here is the ratio between the unit value of exports and unit value of imports. The higher unit value index of exports in a given period, as compared to the unit value index of imports, implies that a country would get more goods from abroad for the same quantity of foreign exchange earned through exports and vice versa. An increase in the value of exports implies that the same quantity of export would fetch more foreign exchange, even if the import price remains unchanged. The terms of trade are considered favourable or unfavourable in a given year according to whether the unit value index of exports is higher or lower than the unit value index of imports, in relation to the base year.

   Concerning the problems met with in the computation of terms of trade see, Dennis R. Appleyard, "Terms of Trade and Economic Development: A Case Study of India", in American Economic Review, Vol. LVIII, May 1968 and H.M.A. Onitiri, "The Terms of Trade", in E.A.G. Robinson (ed), Problems in Economic Development: Proceedings of a Conference held by the International Economic Association, London 1965.

Table 33

Unit Value Indices and Terms of Trade

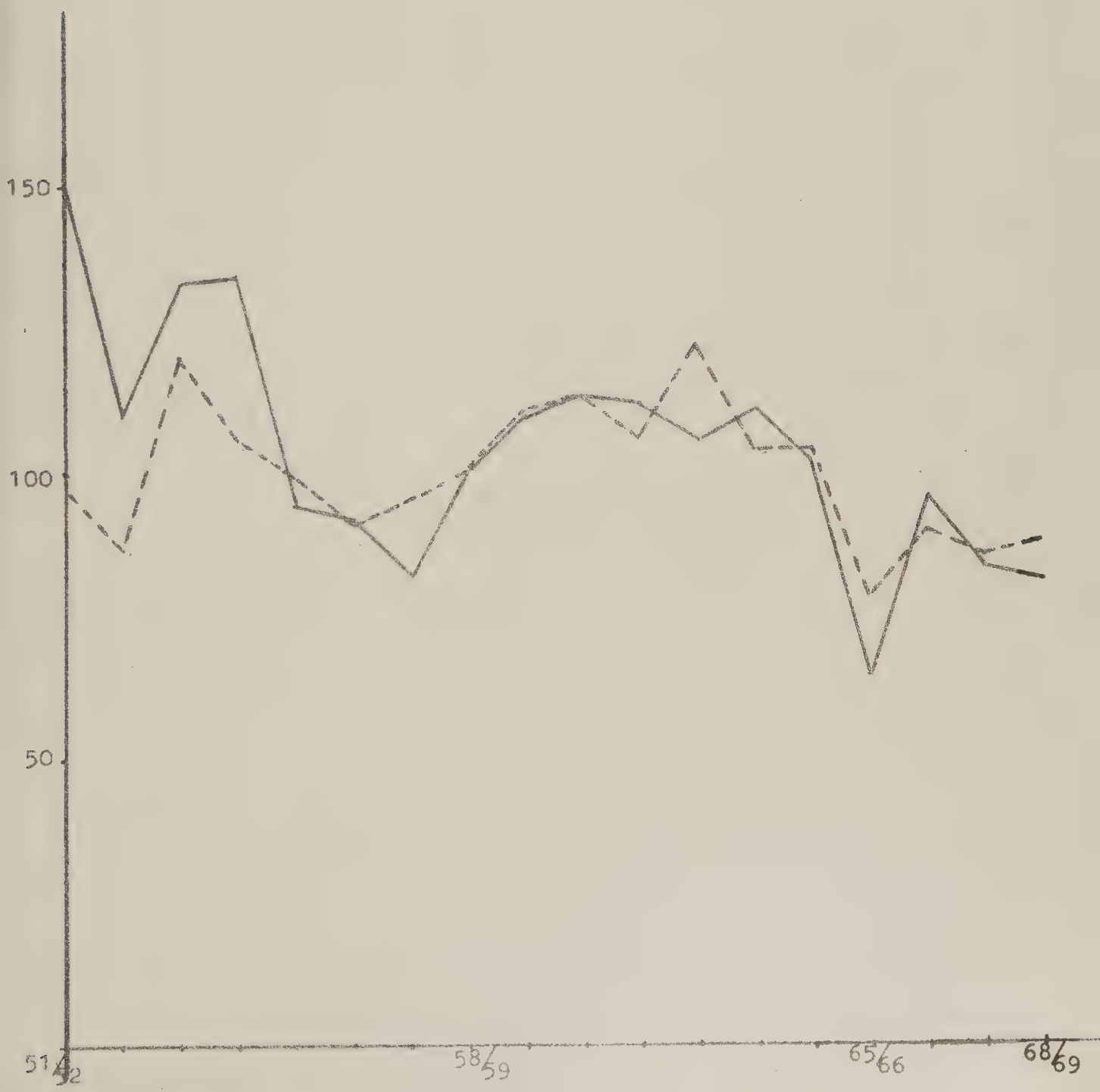
Year	Export Unit Value Index		Import Unit Value Index		Terms of Trade	
	Overall	U.S.A.	Overall	U.S.A.	Overall	U.S.A.
1951/52	167.6	286.6	172.4	188.9	97.2	151.7
1952/53	135.4	19o.4	156.5	172.4	86.5	11o.4
1953/54	128.5	181.8	1o6.8	136.9	12o.3	132.8
1954/55	114.o	137.2	1o7.1	1o2.5	1o6.4	133.8
1955/56	1o8.5	12o.6	1o9.2	128.6	99.3	93.8
1956/57	11o.2	12o.2	12o.8	131.1	91.2	91.7
1957/58	1o2.7	97.7	118.9	94.9	94.9	82.2
1958/59	1oo.o	1oo.o	1oo.o	1oo.o	1oo.o	1oo.o
1959/6o	1o6.4	1o5.1	95.6	95.2	111.3	11o.4
196o/61	112.3	113.2	99.o	1oo.1	113.4	113.1
1961/62	11o.3	117.1	1o3.9	1o4.5	1o6.1	112.1
1962/63	111.4	111.1	9o.8	1o5.2	122.7	1o5.6
1963/64	11o.5	123.2	1o6.2	111.3	1o4.o	11o.7
1964/65	123.6	127.5	118.7	124.5	1o4.1	1o2.4
1965/66	125.5	135.8	16o.o	21o.4	78.4	64.5
1966/67	122.7	137.1	136.2	143.1	9o.1	95.8
1967/68	117.6	124.5	137.2	149.7	85.7	83.2
1968/69	117.8	114.2	134.3	141.3	87.7	8o.8
Plan Averages:						
First Plan	13o.8	183.3	13o.4	149.9	1o1.9	124.5
Second Plan	1o6.3	1o7.2	1o4.7	1o9.1	1o2.2	99.5
Third Plan	116.3	122.9	115.9	131.2	1o3.1	99.1
Annual Plans	119.4	125.3	135.9	144.7	87.8	86.6

Source: A.B.L. Mathur, "India's Terms of Trade with U.S.A.", The Indian Economic Journal, Vol. XXI, October-December 1973, p. 76.

Considering the Plan averages we find that India's terms of trade with the US was favourable only during the First Plan. Subsequently, however, the terms of trade deteriorated continuously, reaching 86.6 during the Annual Plans. As regards

India's Terms of Trade 1951-69

Base 1958/59 = 100



Export-Import Unit Value Indexes Diagram 2

India-U.S.A Base 1958/59 =100

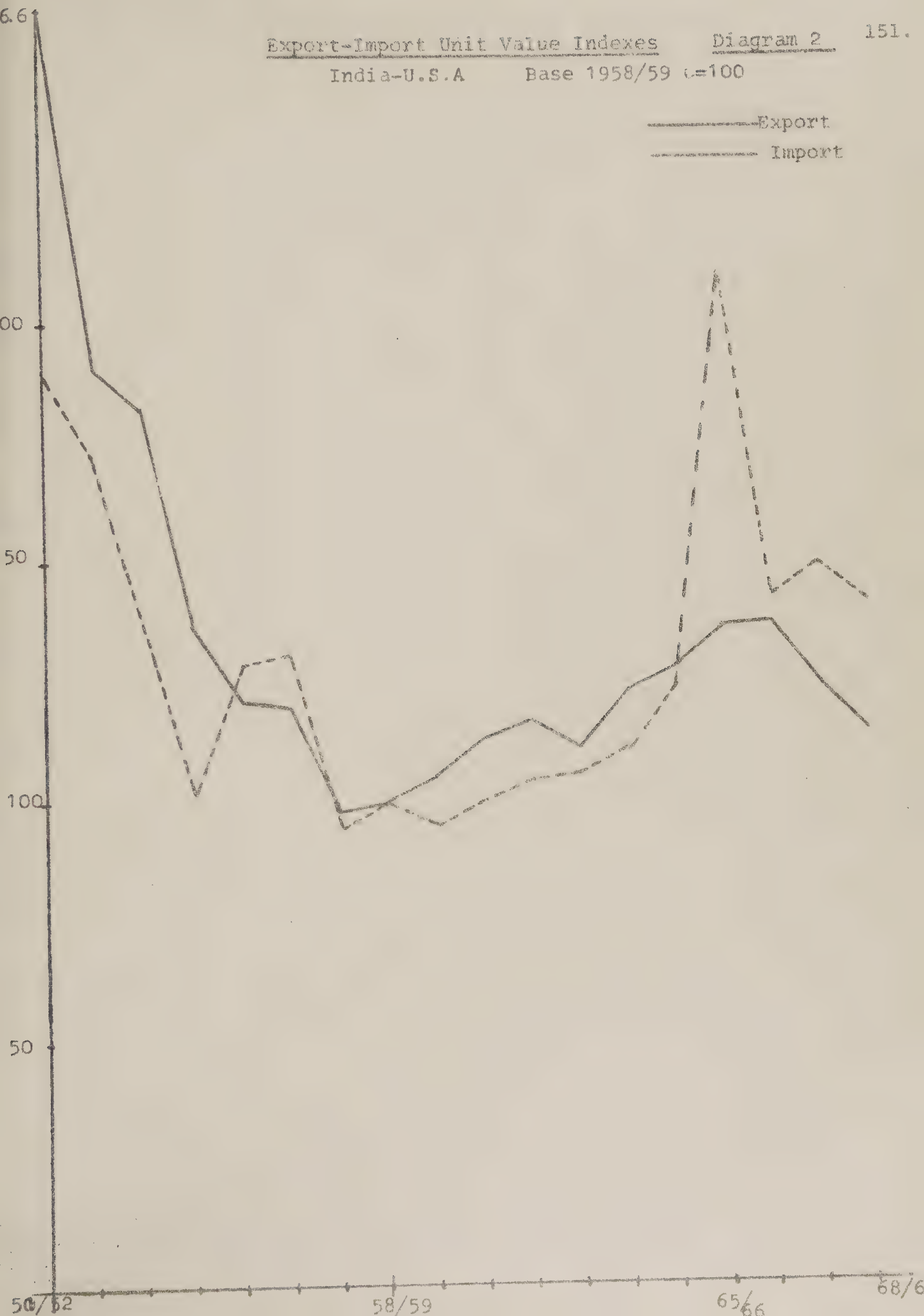
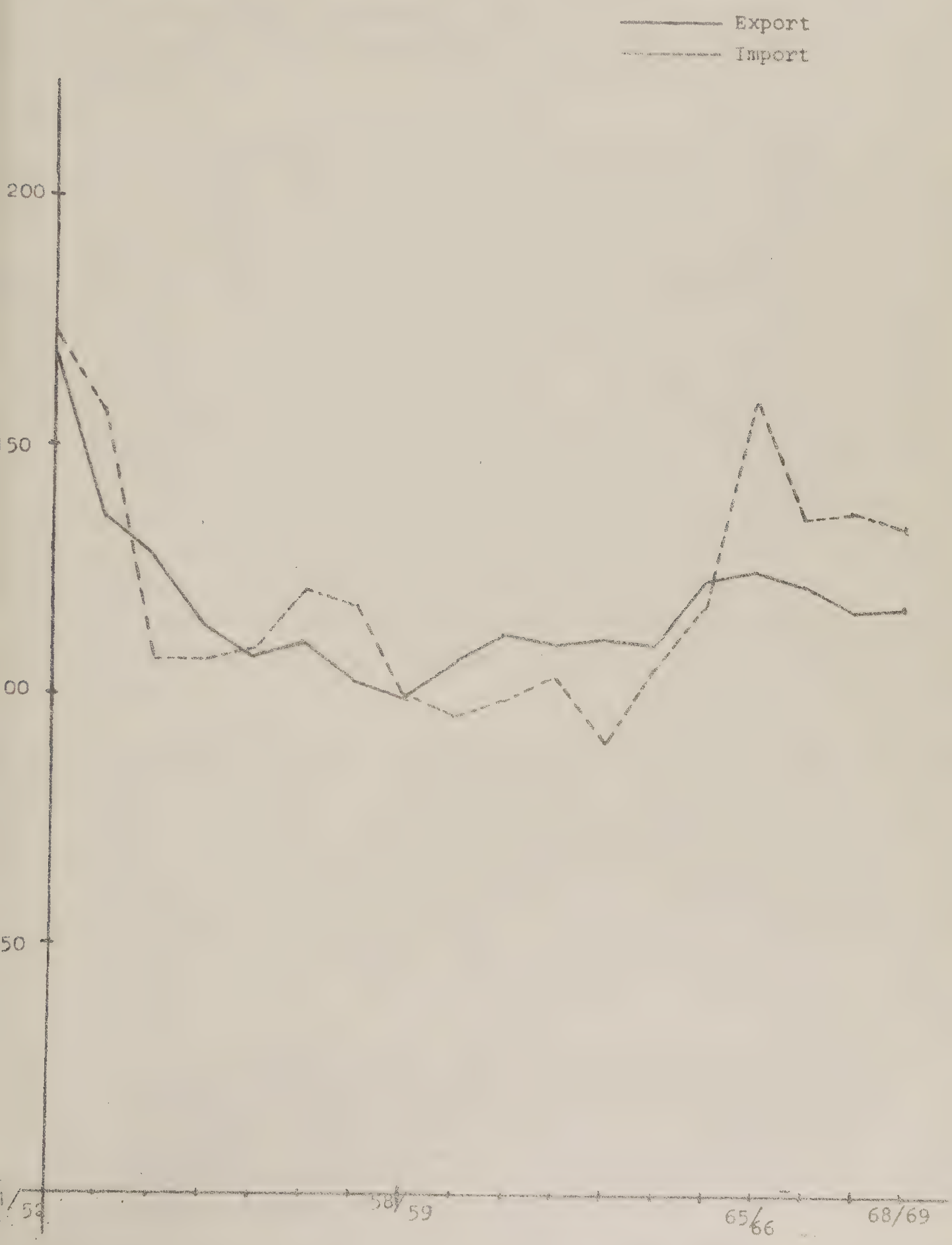


Diagram 3

India's Export-Import Unite Value Indexes

Overall. Base 1958/59 = 100



the overall terms of trade, it was slightly more stable during the three Five Year Plans but deteriorated during the Annual Plans. On the whole, India's terms of trade with the United States deteriorated from Plan to Plan whereas the overall terms of trade worsened only during the Annual Plans period.

If, on the other hand, we consider the yearly values, during the first four years of the First Plan the terms of trade with the United States were more favourable than the overall terms of trade. The following three years show worsening terms of trade both as regards the overall and American terms of trade. From 1958/59 onwards until 1965/66 the terms of trade in both cases show improvement only to worsen thereafter.[1] Thus, as regards India's terms of trade vis-a-vis United States, the picture is slightly different if we consider yearly values although the Plan averages indicate a relatively unfavourable terms of trade. As regards the overall exports, primary products such as tea. coffee, vegetable oils had a negative influence during the 196os.[2] In the case of exports to the US the performance was relatively better became the bulk of India's exports to the US consisted of manufactured and semi-manufactured goods, though the primary products had a negative influence here as well.

It should be added here that the exceptionally unfavourable terms of trade in 1965/66 was due to several factors such as the drought which necessitated an huge import of foodgrains, exceptional rise in the prices of other imports such as iron and steel, copper, aluminium, fertilisers. Although there was an increase in the prices of certain export commodities, the prices of imports mentioned earlier continued to increase more rapidly, thus influencing the trend in terms of trade.

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1. The rupee devaluation in June 1966 contributed towards improving India's terms of trade in 1966/67 which had worsened substantially in 1965/66 (Overall: 78.4 and U.S.A.:64.5) The terms of trade improved to 9o.1 and 95.8 respectively in 1966/67. The improvement was, however, short-lived, as shown by the declining trend in the following two years.
2. India's share of total world exports for some commodities

contd. on next page

We shall now consider the relationship between the inflow of American assistance and terms of trade with the US.

Table 34

Inflow of Assistance and Terms of Trade

(1958/59 = 100)

Period	American assistance	Terms of Trade with US Planwise	Yearwise	
			1951/52	151.7
First Plan	15	124.5	1952/53	110.4
			1953/54	132.8
			1954/55	133.8
			1955/56	93.8
			1956/57	91.7
			1957/58	82.2
Second Plan	100	99.5	1958/59	100.0
			1959/60	110.4
			1960/61	113.2
			1961/62	112.1
			1962/63	105.6
Third Plan	201	99.1	1963/64	110.7
			1964/65	102.4
			1965/66	64.5
			1966/67	95.8
Annual Plans	186	86.6	1967/68	83.2
			1968/69	80.8

Source: see table 33 for terms of trade indices. Indices of US assistance to India are computed on the basis of data from Reserve Bank of India, Report on Currency and Finance for different years.

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contd.

such as tea. jute, manufactures, peanut oil and leather fell more or less continuously over the 1950s and 1960s. See Benjamin Cohen, "The Stagnation of Indian Exports 1951-1961", Quarterly Journal of Economics, Vol. LXXVIII, November 1966; and Bhagwati & Desai (1970) op. cit., pp. 370-71.

The indices of American assistance are calculated taking the Second Plan as the base. A comparision between these indices and the terms of trade indices show that the correlation between higher economic assistance and unfavourable terms of trade is negative. This is clearly seen during the Third Plan when the US assistance to India reached a maximum. The terms of trade with the United States were favourable during four out of five years.

In this context, it should be interesting to examine whether India's terms of trade with the United States could have been less unfavourable in the absence of American assistance which had been, to a large extent, tied both to source and commodity.

In particular during the Annual Plans when India's terms of trade with the United States were unfavourable, we find that the American price of some selected commodities such as fertilisers, iron and steel, copper and zinc were between 1o to 3o per cent higher than the prices from other suppliers.[1] Thus purely on price considerations, it is possible that India's terms of trade with the US would have been less unfavourable if the commodities mentioned here had been imported from cheaper sources of supply. But it can be argued that in the absence of US assistance India would not have imported many of these commodities from other sources due to inadequate foreign exchange resources.

On the whole, we can say that over the period 1951-7o, India's balance of trade with the US has been persistently unfavourable, while the terms of trade have been less unfavourable. India, being a developing country, is not in a position to influence the imports prices and has to secure the supplies from whatever source available, or go without them.[2] India's unfavourable terms of trade with the US

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1. A.B.L. Mathur, "India's Terms of Trade with U.S.A.", op. cit., p. 85,

2. See M.L. Dantwala, "Terms of Trade". in E.A.G. Robinson (1965), op. cit., p. 5o7 ff.

during the final years of the period under study only reflects the problems which Indian foreign trade as a whole suffered. All in all, India seems to have been slightly better off than many a developing country with a single export commodity because her exports are relatively more diversified. This should not, however, obscure the fact that in order to further improve India's balance of trade as well as terms of trade, she needs to increase the production of export commodities with higher degrees of quality.

Chapter IX

American Assistance and Indian Economic Development

In the following pages an attempt is made to study the impact of external assistance on Indian economic development by an assessment of the contribution made by the former to India's national income, saving and investment.

Investment pattern of Indian development planning during the Second and subsequent plans was based on the theoretical foundation laid by Prof. Mahalanobis, a model somewhat similar to the Harrod-Domar model,[1] Mahalanobis model was, to begin with, a two-sector model and made investment the key variable. According to the model, advantages clearly lay in the allocation of investment to capital-producing industry. The development strategy was "to bring about a rapid development of industries/.../ producing investment goods in the beginning by increasing appreciably the proportion of investment in the basic heavy industries".[2] Mahalanobis foresaw five factors which could possibly retard progress. These factors were a) insufficient production of consumer goods in the small industries and household sectors, b) the rate of potential expansion of basic industries which might limit expansion of the entire economy, c) inadequate training of technicians, d) inadequate financial resources, and e) inadequate administrative machinery. He did not, however, expect agriculture to constitute a constraint: "The supply of food is adequate when the seasonal rainfall is normal/.../ However, there is still a somewhat precarious balance between the production of food and the requirements of the growing population unless one reckons on imports of foodgrains".[3]

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1. P.C. Mahalanobis, "An Approach of Operational Research to Planning in India", Sankhya, Vol, XVI, December 1955, E. Domar, Essays in the Theory of Economic Growth, New York, 1957, and R.F. Harrod, Towards a Dynamic Economics, London 1952.

2. P.C. Mahalanobis, op. cit., p. 2o.
The model was subsequently expanded into four sectors with some modifications, but the basic framework was altered very little. See also, Mahalanobis, Talks on Planning, Calcutta, London 1961.

3. Mahalanobis, "An Approach to.....", op.cit., pp.19 and 23.

Investment was, thus, regarded as the main determinant to increase national income. Hence an attempt is made here to see the contribution of external assistance to generating investment and income in India. Since savings constitute an important source of domestic investment, it would be desirable to evaluate the impact of assistance on savings. The Mahalanobis model, however, did not adequately recognise domestic saving as a development constraint.[1] As mentioned earlier, the primary emphasis was on large-scale investments in heavy industries.

The following assumptions have been made while evaluating the contribution of external assistance to national income, investment and saving.

a) National income has two components, namely, income generated by domestic sources and an external assistance component.
b) Two sources of capital for investment are domestic savings and external assistance.
c) External assistance component of investment has two parts, namely, direct assistance and increased domestic savings, through increased income attributable to foreign assistance.
d) The total external assistance is capital assistance.

For our purposes, we are interested in three measures of the economic indicators mentioned: i) the total volume, ii) the incremental volume and iii) the increase in level.[2]

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1. The Mahalanobis model or 'framework' has met with considerable criticism in development literature. As regards the inadequate recognition of savings, see A.S.Bhalla,"From Feldman : to Mahalanobis in Economic Planning", Kyklos, Vol. XVIII,Facs. 1 (1965, pp. 9-26.) Another point of criticism is that the model ignored the need to ensure that agricultural development did not lag behind the rest of the Indian economy. "The manufacturing sector cannot continue to expand for long without a balanced expansion in the output of the agricultural sector". See H.Myint, The Economics of Developing Countries, New York, 1965, p. 130. See also S. Subramaniam, Die Wirtschaftsentwicklung Indiens, Tübingen 1965, pp. 7-25.

2. The following analysis is drawn from S.Stanley Katz, External Assistance and Economic Growth,Bombay and London 1968, Chapter III and IV. These two chapters describe in detail the basis of the calculations.

Total volume is the cumulative flow of income/investment/ saving during the period of study. The incremental or additional volume indicates the actual total volume minus the base year volume multiplied by the number of years in the period under study (the base year here is 195o/51). The increase in level is, of course, the differences between the terminal year volume and the base year volume.

The numerical values presented in the Table 35 are derived from the following:

a) Income generated by assistance: $\text{incremental volume of income} \times \frac{\text{external assistance}}{\text{total investment}}$

b) Share of external assistance in total volume of saving: $\text{incremental volume of saving} \times \frac{\text{income generated by assistance}}{\text{incremental volume of income}}$

c) Share of assistance in total investment: $\text{assistance} + \text{savings generated by assistance}$

d) Share of assistance in total volume of income: $\text{incremental volume of income} \times \frac{\text{share of assistance in total investment}}{\text{total investment}}$

Share of assistance in incremental volume of income, in incremental volume of saving and in incremental volume of investment is obtained as in a), b) and c) respectively.

e) Share of external assistance in increase in level of income:

$$\frac{\text{assistance} + \frac{\text{increase in level of saving}}{\text{increase in level of income}} \times \text{income generated by ext.assist}}{\frac{\text{incremental volume of income}}{\text{incremental volume of investment}}}$$

f) Share of external assistance in increase in level of saving: $\text{share of assistance in increase in level of income} \times \frac{\text{incremental volume of saving}}{\text{incremental volume of income}}$

g) Share of assistance in increase in level of investment: $\text{terminal year assistance} + \text{share of assistance in increase in level of saving.}$

Table 35

External Assistance Components of National Income, Investment and Saving, 1950/51 to 1968/69

(in Rs. crores)

	Total		Share of total External assist.		Share of U.S. Assistance		Domestic share	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
A. National Income:								
Total Volume	23467o	1oo	2236o	9.5	1o58o	4.5	21231o	91.5
Incremental Volume	665oo	1oo	2236o	33.6	1o58o	15.9	4141o	66.4
Increase in Level	8o6o	1oo	15oo	18.6	86o	1o.7	656o	81.4
B. Saving:								
Total Volume	1962o	1oo	24oo	12.2	131o	6.7	1722o	87.8
Incremental Volume	1oo6o	1oo	24oo	23.8	131o	13.o	766o	76.2
Increase in Level	92o	1oo	27o	29.3	13o	14.1	65o	7o.7
C. Investment:								
Total Volume	248oo	1oo	834o	33.6	454o	18.3	1646o	66.4
Incremental Volume	1537o	1oo	834o	54.2	454o	29.5	7o3o	45.8
Increase in Level	111o	1oo	655	59.o	29o	26.1	455	41.o

Sourdes: Calculated from Report on Currency and Finance and Economic Survey for different years.

Note: Income, Savings and Investment figures are at 1948-49 prices.

It must be borne in mind that the values assigned to the various measures of external assistance contribution to economic activity that are given above are rough estimates, calculated from rather broad and general economic relationships. While it is useful to attempt to quantify the relationships, the values obtained should be regarded as general indicators of magnitude.

Several conclusions can be drawn from Table 35. The modest contribution made by total external assistance and American assistance, 9.5 per cent and 4.5 per cent respectively, to the total volume of Indian National Income clearly indicates the fact that even a large amount of external assistance could not be expected to substitute for domestic economic efforts. Domestic efforts can only be supplemented by assistance from abroad and the role of assistance is more that of a catalyst.

Even though India's own efforts were the main source of economic growth during the period under study, the contribution of external assistance to the increase in level of income was more significant. It is assumed ceteris paribus that without external assistance the growth in level of national income would have been only 74 per cent as against actual 91 per cent. Without assistance from the United States the growth could have been only 81 per cent.

The contribution of external assistance to total volume of saving was 12.2 per cent and that of American assistance 6.7 per cent. These figures in themselves are very modest but become more significant in terms of increases realized. External assistance accounted for 29.3 per cent and the US assistance for about 14 per cent. The relatively small contribution of external assistance to total saving can be explained by the fact that assistance was provided mainly for capital formation in projects with longer gestation periods, rather than for production of current income.

The really important role of external assistance is reflected in the contribution made by it to Indian investment activity. The share of external assistance and American assistance in total volume of investment was 33.6 per cent and 18.3 per cent. The contributions become more significant in terms of increase in investment level - 59 per cent for external assistance and 26.1 per cent for American assistance.

It can thus be concluded from the foregoing analysis that external assistance, particularly American assistance, made significant quantitative contributions to the investment programmes and development achieved by India during the period under study.

Chapter X

Conclusions

A few years after independence India launched on a programme of planned economic development. In the beginning, external assistance was not looked upon favourably as a source of development finance partly because India had accumulated a substantial amount of foreign exchange resources from unrequitted exports to Great Britain during the Second World War, and partly because of the belief that no nation would provide assistance for nothing in return and the consequent fear that India would not be able to maintain her neutrality. Moreover, the First Plan was rather modest in size and external assistance had only a minor role to play. The Second Plan, however, was comprehensive and emphasized large-scale industrialisation. It was during this Plan that external assistance emerged as a major source of developmental finance due to, for instance, the 1957/58 exchange crisis resulting from such factors as huge imports of industrial goods and foodgrains. External assistance made up for nearly 21 per cent of the total Plan outlay and the Indian government was forced to recognise the need for external resources.

The share of external assistance in the plan outlays increased to 27 per cent in the Third Plan and to about 24 per cent during the Annual Plans. Thus during the period under study India's dependence on foreign assistance gradually increased and the proclaimed Indian aim of self-reliance receded further into the background.

The number of bilateral and multilateral donors extending assistance to India numbered more than twenty by 197o. The United States was by far the largest donor and accounted for about 54 per cent of the entire assistance utilised during the period under study.

The terms of American assistance were relatively soft but, in the late sixties there was a tendency towards higher rates of interests as well as repayment in dollars. There was also a shift in emphasis from project to non-project assistance, in particular from the mid-sixties, However, the assistance remained implicitly tied although it was explicitly designated as non-project assistance because the loans were tied to the US currency or, given as supplier's credits or export credits, thereby restricting the flexibility in utilisation. Since external assistance was and is generally extended in the form of financial resources, its resource content would depend upon the capacity to purchase real resources from abroad. Herein lies the significant difference between tied and untied credits.

As regards the US assistance to different sectors of the economy during 1951-7o, the share was about 9 per cent in the total outlay on agriculture and allied sectors, excluding fertilisers which accounted for about 8o per cent of the total fertiliser import. The share in the outlay on the industrial sector was about 19 per cent and a substantial part of this assistance was in the form of non-project assistance. It is perhaps in the development of basic infrastructure that the US assistance played an important role. Both the vital role and the expensiveness of the infrastructure are often overlooked in the process of planning in a developing country. While the infrastructure does not contribute directly and immediately to an increase in national income, it does pave the way for an increase in national income when the productive enterprises begin to build on and draw from the infrastructure. The United States extended loans and grants in foreign exchange as well as in rupees for the development of power, transport and communication.

It is difficult to evaluate the impact of American assistance on education, health and family planning. We can, however, take a look at the contribution to the financial outlay. For instance, in the education sector the share was roughly 13.5 per cent of the total public sector outlay. In the field of technical assistance, it introduced new ideas and improved

work techniques, characteristics which are difficult to be evaluated in quantitative terms.

The impact of assistance under P.L.48o on the Indian economy was many-sided. The pattern of financing investment in the public sector clearly shows the importance of local currency holdings as a source of finance. The programme also contributed towards lessening the strains of foreign exchange constraint on economic growth. A diversion of India's limited foreign exchange resources would have probably resulted in more than a proportionate fall in the rate of growth. Perhaps the main contribution of P.L.48o programme was that it reduced overall inflationary impact of deficit financing in Indian plans by keeping food prices under control.

Despite these beneficial effects of the P.L.48o programme, it cannot be overlooked that the imports of foodgrains under P.L.48o were probably largely responsible for the lack of an effective and vigorous agricultural policy in India until the midsixties. Moreover, it is also quite possible that the imports under P.L.48o were, to a certain extent, responsible for distortion of priorities and misallocation of resources in the Indian Plans.

Looking at the overall picture of India's trade relations with the United States, particularly since the mid-196os, we find that there was a significant decrease in the adverse trade balance with the US from about Rs. 56o crores in 1966/67 to Rs. 23o crores in 1969/7o. The decrease was almost entirely on account of the decline in imports. This trend of declining imports continued during the subsequent years as well.

The gap between imports and exports during the period under study was covered by American assistance. The gap became smaller during the years following 1969/7o and the US assistance declined as well because assistance under P.L.48o decreased as India succeeded in increasing her foodgrains production after 197o/71.

Price variations of commodities in the imports from and exports to the United States adversely affected India's terms of trade with the US and thus probably reduced the value of assistance. The impact of unfavourable terms of trade was, however, to a certain extent, softened by American assistance.

It should be noted here that although the trade gap became narrower after 1969/7o, it would be a grave error on India's part to expect this gap to be filled by external assistance since the US may cut off the flow of assistance as at the time of Indo-Pak conflict in 1965 and 1971. However, since there does not seem to be any exaggerated willingness on the part of the United States to import more from India even if it were possible to step up the exports, imports from US would have to be drasticaly reduced to narrow the gap still further. This would imply that the Western 'culture' of Indian industry in the form of excessive reliance on equipment, spares and raw materials from the US and from other western sources, will have to undergo a change.

As a matter of fact the prospect of suspension of assistance had been anticipated even before the cutting-off of American assistance in 1965. Closer relations with Eastern European countries in the field of foreign trade, in addition to expanding trade with other developing countries were emphasized at that time. Against the background of the protectionist tendencies among many developed countries, particularly the United States, very little could be expected by the way of expansion of exports to them.

In this context it should be of interest to consider the impact of the suspension of foreign assistance on import substitution. At the time of the 1965 Indo-Pak conflict the suspension of American assistance had a significant effect on promoting import substitution on broad front. Some of the urgency and drive in this field, however, sagged after the so-called policy of import liberalisation backed by substantial foreign assistance, which was offered as a kind of reward for the devaluation of the rupee in 1966, but which in

fact did not materialise to the extent expected. The urge towards self-reliance and import substitution weakened. Moreover, the extent and depth of import substitution already achieved were not fully appreciated the Indian government in estimatingimport needs and requirements of external assistance. In view of the positive effects of 1965 suspension of assistance, it was to be expected that the enthusiasm for import substitution would have returned when the United States suspended its assistance at the time of the 1971 Indo-Pak conflict. However, the 1971 suspension of assistance did not rekindle India's efforts in the field of import substitution. Renewed interest in import substitution would probably have been healthy for Indian industry, particularly if it was backed by a far stronger agricultural base.

The Indian economy at present appears to be rather well equipped to perform well in the event of suspension of external assistance, provided established capacities are efficiently operated and exploited. A careful analysis of the imports financed by foreign assistance would probably show that except in some cases such as crude oil and non-ferrous metals, much of the imports can be substituted by an efficient utilisation of established capacities. Steel and fertilisers, for instance, which form a considerable part of Indian imports have to be imported because steel and fertiliser plants are operating at approximately half their capacities. It would be possible to substitute a part of these imports provided the steel and fertiliser plants can utilise their established capacities, and thereby reduce India's dependence on external assistance.

We have mentioned at the very outset that external assistance falls into the 'twilight zone of politics and economics'. It is clear from our earlier analysis that during the period under study, the United States was motivated by political and economic considerations in extending assistance to India. India's need and urgency to bring about rapid economic development did not leave her much choice in this matter. There

is little doubt that the United States used foreign assistance as an instrument to influence India's economic policies and programmes at different times. This is very apparent in connection with the 1958 exchange crisis and the 1966 devaluation as well as the subsequent liberalisation of India's economic policies. As regards her foreign policy, India appears to have resisted the US pressures rather successfully and maintained her "neutral and non-alignment" policies.

Despite the primary political and economic motivations, the US foreign assistance objectives were not totally devoid of humanitarian considerations. Nevertheless, it should be emphasized that humanitarian motives appear to have played a subordinate role in the US foreign assistance objectives. But whatever the American foreign assistance objectives vis-vis India, we can, on the basis of our analysis earlier, conclude that American assistance made significant quantitative contributions to the investment programmes and development achieved by India during the period under study.

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These various documents are prepared to serve varying purposes. Accordingly they differ from each other with regard to such aspects as the fiscal period, time span and definition of external assistance.

The primary source of data for the present study are the Reports on Currency and Finance and Economic Surveys. These sources report external assistance on the basis of April 1 to March 31 fiscal period and present a very comprehensive and accurate data. External Assistance has been used to supplement these sources. The Fact Sheets published by the USIS have also been consulted where necessary to obtain certain details not available in the primary sources. There may be some slight discrepancies in the data presented since the Fact Sheets are prepared in July and January and present the total American assistance extended to India with detailed information about individual loans and grant given. After comparing the sources, however, it was found that the differences were rather small and it is hoped that the data presented are consistent enough not to influence the final conclusions.

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